Calderon Communication

Disclosable

From:	Valencia, Salina <Salina.Valencia@sen.ca.gov>
Sent:	Monday, February 04, 2013 1:32 PM
To:	Oseguera, Elizabeth@DBO
Subject:	RE: SB 30 Fact Sheet
Attachments:	Fact Sheet.doc

Salina M. Valencia
Legislative Director
Office of Senator Ron Calderon
State Capitol 5066 | Sacramento, CA 95814
Phone: 916-651-4030 | Fax: 916-327-8755

From: Oseguera, Elizabeth@CORP [mailto:Elizabeth.Oseguera@corp.ca.gov]
Sent: Monday, February 04, 2013 1:05 PM
To: Valencia, Salina
Subject: SB 30 Fact Sheet

Good Afternoon,
My name is Elizabeth Oseguera, and I am tracking the SB 30 bill on behalf of the Department of Corporations. I was wondering if you could send me a copy of the fact sheet and a supporter list.

Thank you,
Elizabeth Oseguera
Executive Fellow
Department of Corporations
(916)327-1626

This message and any attached documents contain information from the California Department of Corporations that may be confidential and/or privileged. If you are not the intended recipient, you may not read, copy, distribute, or use this information. If you have received this transmission in error, please notify the sender immediately by reply e-mail and then delete this message. Thank you.

SB 30(Calderon)
Mortgage Debt Forgiveness

Bill Description

SB 30 will extend the mortgage debt forgiveness protections to January 1, 2014. This is a federal conformity measure.

In early January of 2013 President Obama signed into law an extension of the mortgage debt tax forgiveness protections until the end of 2013. However, the state has not yet passed legislation to extend the sunset, leaving many short sale transactions in limbo as sellers have to make an unfortunate choice between paying a tax they can't afford and allowing their home to fall into foreclosure.

Short sales have become an increasingly important alternative to foreclosure for distressed homeowners. In the past, federal and state law has viewed the debt forgiven by a lender as income and, as a result, that "income" has been taxed. In recent years, state and federal law has been amended to keep this "phantom" income from being taxed.

SB 30 extends the state's mortgage debt forgiveness protections that expired at the end of 2012, until January 1, 2014.

Background

In a short sale, a home is sold for less than the balance of the debt owed by the homeowner, and the homeowner's lender agrees to accept less than the amount owed on the debt. The unpaid balance is known as a deficiency and it is that amount that is considered "phantom" income and, previously, taxed as income. A short sale is often used as an alternative to foreclosure by a lender because it mitigates additional costs for both the lender and homeowner.

The federal government enacted the Mortgage Debt Relief Act of 2007 that permitted 3 years of mortgage debt relief by excusing borrowers from income tax on debt forgiven in a short sale. In late 2008, the federal government extended this relief until December 31, 2012. In 2008, California enacted SB 1055 (Machado) which provided conformity with the federal statute for the 2007 through 2009 tax years. In 2010, SB 401 (Wolk) extended the debt forgiveness protections on "phantom" income through December 31, 2012.

On December 31, 2012, Congress passed budget solutions in an attempt to avoid the "fiscal cliff." Included in this measure was an extension of the income debt forgiveness sunset date to January 1, 2014. SB 30, which will extend the sunset date in California law to January 1, 2014, and makes state law retroaction to January 1, 2013.

Why SB 30 Is Needed

SB 30 needs to be enacted quickly because,

- Families are stuck in financial limbo. Homeowners currently in short sale negotiations cannot finalize these transactions without potentially incurring a tax they already cannot afford. Yet they don't have the luxury of time to wait to see if the state will act to provide relief from this tax.

- Failure to act will damage the still struggling housing market and increase foreclosures which lead to blight. Distressed homeowners often only have two choices – securing a short sale or allowing their home to be foreclosed upon. If they will incur a large tax by selling their home through a short sale, they will be forced to opt for foreclosure instead. Foreclosures destabilize communities and are more damaging to housing values than short sales.

- It is the right thing to do. Families forced to make the difficult decision to sell their home as a short sale are already in financial trouble. And, that financial trouble may be due to a serious illness and/or loss of employment. They simply can't afford to pay an additional tax on money they've never actually received.

Support

- California Association Realtors (C.A.R)/**Sponsor**
- The California Bankers Association (CBA)/**Co-Sponsors**

For More Information

Salina Valencia Legislative Director
(916) 651-4030
salina.valencia@sen.ca.gov

CSBS Task Force

Disclosable

From: Owen, Jan Lynn@DBO
Sent: Friday, November 15, 2013 2:10 PM
To: Margaret Liu
Subject: RE: quick question re CSBS testimony reference to California

Margaret: all the statements below are accurate from CA's perspective. Use any and all of the statement below. Thank you. Jan

---

From: Margaret Liu [MLiu@csbs.org]
Sent: Friday, November 15, 2013 2:01 PM
To: Owen, Jan Lynn@DBO
Cc: MLambert@csbs.org
Subject: quick question re CSBS testimony reference to California

Commissioner Owen,
I wanted to run a few sentences past you. As you know, CSBS is testifying on Tuesday afternoon on virtual currency. We have a paragraph that touches on New York and California (just a reference to the recently enacted law). Is there anything else that you want us to add regarding what the California DBO is doing in this space? For example, would it be accurate to say that "California DBO worked with the legislature on the new law" or that "California DBO is actively engaged in a dialogue with various entities involved with virtual currency." Here is the paragraph.

"States are also using their regulatory and legislative tools to learn more about the industry and increase transparency. For example, the New York Department of Financial Services launched an inquiry in August[1] and recently announced it will hold public hearings on virtual currency.[2] New York's goal is one all states share, to determine appropriate regulatory guidelines that "allow new technologies and industries to flourish, while also working to ensure that consumers and our national security remain protected."[3] The California legislature has also worked to give regulators more tools to make the licensing process more transparent, authorizing the Department of Business Oversight to make written guidance public and offer guidance to prospective licensees.[4]"

Thanks,

MCL

Margaret C. Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
1129 20th Street, NW, Suite 900
Washington DC 20036
mliu@csbs.org
(o) 202.728.5749
(m) 202.368.1498

---

[1] Notice of Inquiry on Virtual Currencies, NYDFS (12 August 2013) *available at* http://www.dfs.ny.gov/about/press2013/memo1308121.pdf. Superintendent Lawsky explains: "The emergence of Bitcoin and other virtual currencies has presented a number of unique opportunities and challenges. Building innovative platforms for conducted commerce can help improve the depth and breadth of our nation's financial system. However, we have also seen instances where the

cloak of anonymity provided by virtual currencies has helped support dangerous criminal activity, such as drug smuggling, money laundering, gun running, and child pornography."

[2] Notice of Intent to Hold Hearing on Virtual Currencies, Including Potential NYDFS Issuance of a 'BitLicense,' NYDFS (14 November 2013) *available at* http://www.dfs.ny.gov/about/press2013/virtual-currency-131114.pdf.

[3] Notice of Inquiry on Virtual Currencies, *supra*.

[4] California Assembly Bill No. 786, Money Transmissions (2013-2014). Effective January 1, 2014. *Available at* http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201320140AB786.

McQuinn, Michael@DBO

From: Owen, Jan Lynn@DBO
Sent: Tuesday, November 19, 2013 10:05 AM
To: Margaret Liu
Subject: RE: Written Statement for Virtual Currency Hearing

Thanks Margaret- should you get an inquiries please route them through my office. Please contact me with any questions. Jan

---

From: Margaret Liu [MLiu@csbs.org]
Sent: Tuesday, November 19, 2013 9:52 AM
To: Owen, Jan Lynn@DBO
Subject: FW: Written Statement for Virtual Currency Hearing

Jan,
Aaron Greenspan submitted a statement for today's virtual currency hearing. He is not appearing as a witness. You have probably seen, but just in case...
MCL

Margaret C. Liu
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McGuffin, Matthew@DBO

From: Catherine Woody <cwoody@csbs.org>
Sent: Thursday, February 20, 2014 5:23 AM
To: Mirrashidi, Lila@DBO
Subject: CSBS to Announce Emerging Payments Task Force

If this email does not display properly, please view our online version.

February 20, 2014

To Commissioners, Deputy Commissioners, and Public Information Officers:

This morning, CSBS will issue a press release announcing the creation of the Emerging Payments Task Force.

The Task Force will study changes in payment systems to determine the potential impact on consumer protection, state law, and banks and non-bank entities chartered or licensed by the states.

CSBS Chairman Charles Vice, Commissioner of the Kentucky Department of Financial Institutions, has appointed David Cotney, Commissioner of the Massachusetts Division of Banks, to chair the Task Force. Remaining members of the Task Force are:

- Jan Lynn Owen, Commissioner of California Department of Business Oversight.
- Drew J. Breakspear, Commissioner of Florida Office of Financial Regulation.
- Kevin B. Hagler, Commissioner of Georgia Department of Banking and Finance.
- Benjamin Lawsky, Superintendent of New York State Department of Financial Services.
- Greg Gonzales, Commissioner of Tennessee Department of Financial Institutions.
- Charles G. Cooper, Commissioner of Texas Department of Banking.
- G. Edward Leary, Commissioner of Utah Department of Financial Institutions.
- Scott Jarvis, Director of Washington Department of Financial Institutions.

The press release is available here.

H. Catherine Woody
Vice President of Media and Industry Relations

Conference of State Bank Supervisors
1129 20th Street, NW
Ninth Floor
Washington, D.C. 20036-4306
202-728-5733direct
202-285-3289 cell
cwoody@csbs.org

Click here if you prefer not to receive any further email from CSBS.

Remarks of

Kathleen Partin, Deputy Commissioner, of the Financial Services Division of the California Department of Business Oversight

Before the California Financial Service Providers Association

CALIFORNIA & WESTERN STATE CONFERENCE & TRADE SHOW

Consumer Lending and the California Deferred Deposit Transaction Law

May 19, 2014

A. Introduction

CFSPA members and honored guests, as you've just heard, I am Kathleen Partin, Deputy Commissioner of the Financial Services Division of the California Department of Business Oversight. Commissioner Jan Lynn Owen sends her regrets that she was unable to be here today. She wanted me to thank you for the opportunity to appear before you at this conference. I have been asked to speak on the Department of Business Oversight and our administration of the California Deferred Deposit Transaction Law, commonly known as payday lending.

B. Governor's Reorganization Plan

At your conference last year, we reported on our progress towards implementing the Governor's Reorganization Plan for state government. As of July 1, 2013, the Department of Corporations and the Department of Financial Institutions combined to become the Department of Business Oversight. The new Department has assumed the responsibilities and authorities of the former departments. Among other benefits, this change means a "one-stop shop" for those of you who hold multiple licenses.

The licensees of the former Department of Corporations—including the Deferred Deposit Transaction Originators and California Finance Lenders—now fall under a division within the new Department, called the Division of Corporations. The former Financial Services Division has been divided into two distinct divisions, both reporting directly to the Commissioner:

California Finance Lenders, escrow agents, and deferred deposit transaction originators are under the Financial Services Division.

All mortgage-related activities, including lenders operating under the California Residential Mortgage Lending Act and mortgage loan originators are under the Mortgage Lending Division.

The number of staff assigned to these divisions remains unchanged and licensing and examination procedures were not affected by the reorganization.

C. The California Deferred Deposit Transaction Law

Turning to the subject near and dear to you all, allow me to share some brief history and industry figures.

California is one of 38 states that permit deferred deposit transactions. The California Deferred Deposit Transaction Law, or CDDTL, became effective on January 1, 2003 and operative on December 31, 2004. Currently, there are approximately 326 licensed CDDTL companies with 2074 locations.

In 2012, the Department licensed and regulated 330 deferred deposit originators at 2100 locations. Deferred deposit originators made more than 12.2 million transactions to more than 1.7 million individual customers, totaling more than $3.2 billion. The average length of a transaction was 17 days.

The CDDTL Annual Report on deferred deposit transaction activity in 2013 was due from licensees on March 15. For anyone who missed that deadline, your report is past due. Please remember that the Commissioner has the authority to summarily revoke the license of those licensees who fail to file this report (per Financial Code Section 23053).

As you may recall, at the end of last year the Department requested designated email addresses from all Financial Services licensees that were licensed as of October 1, 2013. As of April 18, 311 CDDTL companies out of 326, have submitted designated email addresses. These email addresses allow the Department to communicate with licensees quickly and efficiently so we're striving to achieve full compliance from all licensees.

D. Department's Role in Regulating the California Deferred Deposit Transaction Law

The deferred deposit transaction law provides regulatory direction to the deferred deposit transaction industry, providing a level playing field for licensees and ensuring consumers have the disclosures necessary to make informed decisions.

The Department protects consumers by screening out bad actors during the licensing process and requiring licensees to report their business activities. The Department further protects consumers by detecting unlawful practices during examinations.

Serious or repeated violations, such as overcharging customers, deficient books and records, or using unlicensed agents to transact business are subject to enforcement actions that may lead to suspension or revocation of the license, monetary citations or other actions to remedy violations of law.

In addition to examinations, the Department may investigate a deferred deposit originator's operations as a result of complaints from consumers or tips from other regulatory agencies. The Department maintains an online complaint filing process and provides a toll-free number for those who need assistance in filing a complaint or obtain additional information about Department licensees.

E. Regulatory News

As you may have heard or seen on our website, www.dbo.ca.gov, the Department is drafting new regulations under the CDDTL. Comments for the current invitation for comment were due today, and there will be at least one additional comment period as we move forward with proposed regulations. . You can find the current draft regulation text and a set of questions we posed to the public on our website.

F. Enforcement

Since last April the Department has sanctioned 11 unlicensed online lenders operating from locations such as Malta, Costa Rica and Texas. In 2011, we sanctioned 13 unlicensed online lenders and in 2010 we sanctioned 11. Unlicensed Internet lending is a significant threat to your business and consumers and the Department is constantly looking for innovative ways to combat unlicensed lending activity on the Internet.

In one recent enforcement action against an online lender, this past December the Department entered into a settlement with Folsom-based TIOR Capital, LLC for violations of the California Deferred Deposit Transaction Law. As part of the settlement, TIOR Capital, LLC effectively forfeited more than $1 million in outstanding loans made to California borrowers, agreed to stop violating the law, and pay $100,000 in penalties to the state.

The Department has also alerted our state-licensed banks and credit unions of the Department's ongoing efforts to stop illegal unlicensed online payday lending activity and the institutions' obligation to identify and report any suspicious activity.

The Department is examining banks and credit unions to ensure safeguards are in place to prevent unlicensed payday lenders from gaining access to the Automated Clearing House (ACH) network. By accepting debit and credit transactions from unlicensed payday lenders through the ACH network, financial institutions are, knowingly or unknowingly, enabling illegal payday loan transactions to occur in California.

G. Examinations

In our recent regulatory examinations of licensees we have observed some relatively common violations:

1. Some licensees were collecting the finance charges from borrowers who complied with the terms of the rescission clauses contained in the CDDTL Written Agreements. These clauses appear to be a misleading and deceptive business practice. This is something we have observed in recent examinations and licensees should be aware that this may be an enforcement issue. [*Section 23037(f)*].

2. CDDTL Written Agreements have not been updated to show the current name of the "Department of Business Oversight." Many licensees have not updated their Written Agreement since the Department's name change last July 1. [*Section 23037(f)*]

3. Customers' checks, CDDTL Written Agreements, and other forms with blanks still to be filled in. [*Section 23037(h)(FC)*].

4. Use Of Unauthorized Name Section - All business conducted pursuant to a CDDTL license must be conducted under the name that is reflected on the license. Department examiners have noted that in some cases licensees may make minor adjustments to their business name. In these cases a slight change results in using another company's business name. [*Section 23023(FC)*].

I. Regulatory Challenges

Before I conclude, I want to share that technological advances and industry innovations are presenting a host of new challenges for financial regulators. In particular, developments in emerging payment systems are revolutionizing lending and banking everywhere.

The Conference of State Bank Supervisors (CSBS) in February announced the formation of the Emerging Payments Task Force to study changes in payment systems. The goal is to determine the potential impact on consumer protection, state law, and banks and non-bank entities chartered or licensed by the states. Commissioner Owen was invited to represent California on the Task Force.

The Task Force is taking a comprehensive approach to studying the changing payment systems, including virtual currencies and other innovations. The Task Force will engage with a broad range of stakeholders – including fellow state regulators, federal regulators, industry participants, and other experts – to understand how new entrants and technologies affect the stability of payment systems and the broader financial marketplace and to develop ideas for connecting the emerging payments landscape to the financial regulatory fabric.

The goal is to evaluate the benefits and risks of emerging payments systems and to coordinate state regulatory oversight.

In addition to Commissioner Owen, the Task Force is comprised of eight other state regulators from:

- Florida
- Georgia
- New York

- Tennessee
- Texas
- Utah
- Washington
- Massachusetts

J. DOCQNET

The Department of Business Oversight is preparing to launch the self-service portal of the Document Quality Network (DOCQNET). A bulletin will be going out shortly to all licensed Financial Services companies. This information technology upgrade will significantly improve how we communicate with applicants and licensees and enhance consumer support. The core objectives of DOCQNET are to:

- Streamline the review of applications and renewals
- Improve examination coordination and planning
- Enhance how we use licensee data to better understand the financial services marketplace

Beginning June 18, 2014, individuals with a license or wishing to obtain a license to conduct business under the California Finance Lenders Law, California Deferred Deposit Transaction Law, or Escrow Law will be able to:

- Submit applications online
- View the status of their license application
- And in the future, pay application, renewal and qualification fees

K. Closing

As you have probably noticed, the federal Consumer Financial Protection Bureau (CFPB) has been given broad authority to oversee consumer financial activities and has focused much of that authority on payday lending. While deferred deposit regulation will continue to be a state responsibility, the Department welcomes the opportunity to collaborate with our federal counterparts to ensure a fair and secure marketplace for the sake of both consumers and entrepreneurs.

Thank you for the opportunity to address you today. (**IF TIME PERMITS:** If you have any questions, I'd be happy to answer them now.)

From: Rockhelle Johnson <rjohnson@csbs.org>
Sent: Friday, February 28, 2014 8:54 AM
To: Salazar, Patty@DBO
Subject: Emerging Payments Task Force Talking Points

If this email does not display properly, please view our online version.

February 28, 2014

To Public Information Officer Work Group Members:

As mentioned on the conference call yesterday, I am sharing with you cleared talking points that you may use when speaking with members of the media. The talking points are available here. These talking points will be regularly updated as the Task Force meets milestones in carrying out its objectives. As such, we will be sure to share updated talking points with you. Lastly, if you have questions about the talking points or media inquiries, please don't hesitate to contact the CSBS Communications Division.

Thank you!

Catherine Woody
Vice President, Media & Industry Relations
cwoody@csbs.org
202-728-5733

Rockhelle Johnson
Senior Manager of Communications
rjohnson@csbs.org
202-407-7156

Matt Longacre
Manager of Communications
mlongacre@csbs.org
202-803-8091

Rockhelle Johnson
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rjohnson@csbs.org

Click here if you prefer not to receive any further email from CSBS.

From: Margaret Liu <MLiu@csbs.org>
Sent: Friday, February 28, 2014 2:02 PM
To: O'Toole, Dave@DBO
Subject: Update on CSBS Emerging Payments Task Force

If this email does not display properly, please view our online version.

TO: COMMISSIONERS AND DEPUTIES

As you know, CSBS last week announced the formation of an Emerging Payments Task Force to examine the payments landscape, including innovations such as virtual currency. The task force attracted significant attention in the media and from policy makers, including a statement from Senate Homeland Security and Government Affairs Chairman Tom Carper (D-DE). Click here to see the Carper statement and other media coverage. Additionally, Task Force Chairman and CSBS Vice Chair David Cotney appeared on the Fox Business show "Money with Melissa Francis." Click here to see the video clip.

Have a great weekend.

Margaret C. Liu
(o) 202.728.5749
(m) 202.368.1498

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
mliu@csbs.org
202.728.5749

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McQuinn, Michael@DBO

From: Owen, Jan Lynn@DBO
Sent: Wednesday, March 19, 2014 12:46 PM
To: Margaret Liu
Subject: RE: CSBS fly-in -- Rep Waters speaking

Yea- It should be interesting. Thanks for the heads up. Jan

Jan Lynn Owen
Commissioner
California Department of Business Oversight
1515 K Street Suite 200
Sacramento, California 95814
916-324-9011

www.dbo.ca.gov

From: Margaret Liu [mailto:MLiu@csbs.org]
Sent: Wednesday, March 19, 2014 12:36 PM
To: Owen, Jan Lynn@DBO
Subject: CSBS fly-in -- Rep Waters speaking

Hi Jan,
I know that you aren't coming to the fly-in, but I wanted to let you know that Mrs. Waters just confirmed as a speaker today.
Thanks,
MCL

Margaret C. Liu
Senior Vice President and Deputy General Counsel
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1129 20th Street, NW, Suite 900
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mliu@csbs.org
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(m) 202.368.1498

McQuinn, Michael@DBO

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Monday, March 03, 2014 11:17 AM
To:	Owen, Jan Lynn@DBO
Subject:	Reminder-CSBS Emerging Payments Task Force Call Tuesday, March 4 at 4 pm EST

If this email does not display properly, please view our online version.

TO: CSBS Emerging Payments Task Force

This is a reminder that the task force will hold its first call tomorrow, Tuesday, March 4 at 4:00 pm EST, 3:00 pm CST, 2:00 pm MST, and 1:00 pm PST.

Click here to add this to your Outlook calendar

Dial: 1-888-827-6040
Participant Passcode: REDACTED

Agenda:

- Welcome and Introductions
- Emerging Payments Task Force Charter
- Potential Task Force Deliverables
    - Policy Development
    - Resources for Regulators
    - Outreach
    - State Regulator Training
- Scheduling Future Calls

The public announcement of the Emerging Payments Task Force has generated a large amount of media attention. Last week, we sent out some of the press coverage that the Task Force has received. In order to help CSBS monitor media inquiries and track media coverage of the Task Force, we are asking that all Task Force members please notify Catherine Woody (cwoody@csbs.org or 202728-5733) or Rockhelle Johnson (rjohnson@csbs.org or 202-407-7156) when contacted by the media. We would also like to extend to you the assistance of the Communications Division with media interview preparations, or, if you wish, feel free to refer reporter inquires to CSBS.

Please do not hesitate to contact me if you have any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
mliu@csbs.org
202.728.5749

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McGuffin, Matthew@DBO

Subject:	FW: CSBS Emerging Payments Task Force
Location:	Commissioner's Office
Start:	Tue 3/4/2014 1:00 PM
End:	Tue 3/4/2014 2:00 PM
Show Time As:	Tentative
Recurrence:	(none)
Meeting Status:	Not yet responded
Organizer:	Nishikawa, Marilyn@DBO

-----Original Appointment-----
From: Nishikawa, Marilyn@DBO
Sent: Tuesday, February 25, 2014 1:00 PM
To: Nishikawa, Marilyn@DBO; Owen, Jan Lynn@DBO
Subject: CSBS Emerging Payments Task Force
When: Tuesday, March 04, 2014 1:00 PM-2:00 PM (UTC-08:00) Pacific Time (US & Canada).
Where: Commissioner's Office

Toll Free Number: 1-888-827-6040

Leader Passcode: [redacted]

Participant Passcode: [redacted]

TO: CSBS Emerging Payments Task Force

This is a reminder that the task force will hold its first call tomorrow, Tuesday, March 4 at 4:00 pm EST, 3:00 pm CST, 2:00 pm MST, and 1:00 pm PST.

Click here to add this to your Outlook calendar

Dial: 1-888-827-6040
Participant Passcode: [redacted]

Agenda:

- Welcome and Introductions
- Emerging Payments Task Force Charter
- Potential Task Force Deliverables
    - Policy Development
    - Resources for Regulators
    - Outreach

    - State Regulator Training
- Scheduling Future Calls

The public announcement of the Emerging Payments Task Force has generated a large amount of media attention. Last week, we sent out some of the press coverage that the Task Force has received. In order to help CSBS monitor media inquiries and track media coverage of the Task Force, we are asking that all Task Force members please notify Catherine Woody (cwoody@csbs.org or 202728-5733) or Rockhelle Johnson (rjohnson@csbs.org or 202-407-7156) when contacted by the media. We would also like to extend to you the assistance of the Communications Division with media interview preparations, or, if you wish, feel free to refer reporter inquires to CSBS.

Please do not hesitate to contact me if you have any questions.

McQuinn, Michael@DBO

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Thursday, March 06, 2014 11:55 AM
To:	Owen, Jan Lynn@DBO
Subject:	ACTION REQUESTED: Please Review and Confirm State Data for Fly-In Materials

If this email does not display properly, please view our online version.

TO : COMMISSIONERS, DEPUTIES AND ALL FLY-IN ATTENDEES

ACTION REQUESTED: Review and Confirm State Data for Fly-In Materials

As in past years, we are preparing a leave-behind for your use in Congressional meetings. The leave-behind includes information about CSBS policy priorities as well as state-specific information about your agency. In addition to the Commissioner's name and contact information, the state-specific information on the leave-behind will include:

- State chartered bank assets under supervision (from FDIC Statistics on Depository Institutions)
- Number of banks supervised (from FDIC SDI)
- Number of banks above $10 billion (from FDIC SDI)
- Number of banks below $1 billion (from FDIC SDI)

Additionally, as a new data element, we plan to include a state-specific list of supervised industries within the Banking Commissioner's responsibilities. The purpose of this information is to convey the scope your agencies' supervisory and regulatory responsibilities. The spreadsheet includes information that we have extracted from the Profile of State Chartered Banking. In certain instances, we have collapsed categories that might be distinct under state law into more general categories, for example using the term "Consumer Finance Companies" to capture what might be multiple categories of licensed lenders. As this will be new information for this year's leave behind, we particularly need your attention to this information.

To ensure the accuracy of this information, please confirm the data for your agency on the attached spreadsheet and let us know of any changes that you would like made to the "Supervised Industries" category.

If we do not hear from your agency by COB, Wednesday, March 12, we will assume that our information is accurate.

If you have any corrections or questions, please contact me or Daniel Schwartz at 202-728-5472 or Dschwartz@csbs.org.

Thank you in advance for your attention.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
mliu@csbs.org
202.728.5749

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From: Margaret Liu <MLiu@csbs.org>
Sent: Thursday, March 06, 2014 12:35 PM
To: Owen, Jan Lynn@DBO
Subject: Reminder: CSBS Legislative Committee - March Call and Fly-In Prep Call, Thursday, March 6, 2014 at

If this email does not display properly, please view our online version.

TO: Commissioners, Deputies, and Legislative Contacts

Please be advised- There is a discrepancy with the call-in number for the Legislative Committee conference call.

To access the call, please use the following information:

Toll Free Number: 1-888-827-6040

Participant Passcode: REDACTED

Apologies for any confusion.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
mliu@csbs.org
202.728.5749

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McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Wednesday, March 12, 2014 9:26 AM
To: Owen, Jan Lynn@DBO
Subject: CSBS 2014 Fly-In Prep Call on Tuesday, March 18 at 3:00 pm EST

If this email does not display properly, please view our online version.

TO: Commissioners, Deputies and Fly-In Participants

In preparation for the upcoming Government Relations Fly-In, CSBS staff will hold a briefing call on **Tuesday, March 18 at 3:00 pm Eastern, 2:00 pm Central, 1:00 pm Mountain, 12:00 pm Pacific**. During the call, we will walk through the agenda and discuss issues that you may wish to raise or that may come up during your meetings with regulators and Members of the House and Senate.

Click here for the most current version of the Fly-In Agenda.

If you have not yet registered for the Fly-In, click here to register.

If you have not yet provided your personal identification information to Tonita Allers for the meeting with Federal Reserve Chairman Yellen and the Federal Reserve Board of Governors, please contact Tonita (tallers@csbs.org or 202.728.5704) immediately. All participants must provide this information prior to the meeting in order to be permitted to enter the Federal Reserve building. Also, please be sure to bring your picture identification to gain access to the building.

To Access the Prep Call:
Outlook Calendar Link
Dial: 1-888-827-6040
Participant Passcode: REDACTED

We look forward to talking with you next week.

In the meantime, please do not hesitate to contact me (mliu@csbs.org or 202.728.5749) or Tonita Allers (tallers@csbs.org or 202.728.5704) if you have any questions.

Thank you.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
mliu@csbs.org

202.728.5749

Click here if you prefer not to receive any further email from CSBS.

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Wednesday, March 12, 2014 1:34 PM
To:	david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; khagler@dbf.state.ga.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; maria.filipakis@dfs.ny.gov
Cc:	Jeanette Barraza; Michael Stevens; John Ryan; MaryBeth Quist; Chuck Cross; JCooper@csbs.org; Buz Gorman
Subject:	CSBs Emerging Payments Task Force -- Next Call April 1 at 3:30 pm
Attachments:	CSBS Emerging Payments Task Force - April 1 call.ics

TO : CSBS EMERGING PAYMENTS TASK FORCE

We would like to schedule the next task force call for Tuesday, April 1 at 3:30 pm EDT. A calendar item is attached to this email.

Please let me know if you will NOT be able to participate.

Additionally, please let me know if you have other staff in your agencies that you would like added to the Task Force distribution list.

Regards,

Margaret

Margaret C. Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
1129 20th Street, NW, Suite 900
Washington DC 20036
mliu@csbs.org
(o) 202.728.5749
(m) 202.368.1498

From: Margaret Liu <MLiu@csbs.org>
Sent: Tuesday, March 18, 2014 7:00 AM
To: Owen, Jan Lynn@DBO
Subject: REMINDER: CSBS 2014 Fly-In Prep Call Today, Tuesday, March 18 at 3:00 pm EST

If this email does not display properly, please view our online version.

TO: Commissioners, Deputies and Fly-In Participants

This is a reminder that CSBS staff will hold a Fly-In briefing call today, **Tuesday, March 18 at 3:00 PM Eastern, 2:00 PM Central, 1:00 PM Mountain, 12:00 PM Pacific**. During the call, we will walk through the agenda and discuss issues that you may wish to raise or that may come up during your meetings with regulators and Members of the House and Senate.

Additionally, CSBS has prepared a reference document of Key Legislative Topics for your use as you prepare for your Hill meeting. Please note, this document is **FOR STATE REGULATORS ONLY.**

Click here for the most current version of the Fly-In Agenda.

If you have not yet registered for the Fly-In, click here to register.

If you have not yet provided your personal identification information to Tonita Allers for the meeting with Federal Reserve Chairman Yellen and the Federal Reserve Board of Governors, please contact Tonita (tallers@csbs.org or 202.728.5704) **immediately**. All participants must provide this information prior to the meeting in order to be permitted to enter the Federal Reserve building. Also, please be sure to bring your picture identification to gain access to the building.

To Access the Prep Call:
Outlook Calendar Link
Dial: 1-888-827-6040
Participant Passcode: REDACTED

We look forward to talking with you this afternoon.

In the meantime, please do not hesitate to contact me (mliu@csbs.org or 202.728.5749) or Tonita Allers (tallers@csbs.org or 202.728.5704) if you have any questions.

Thank you.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Tuesday, March 18, 2014 6:35 PM
To: Owen, Jan Lynn@DBO
Subject: CORRECTED LEAVE BEHINDS COMING WEDNESDAY

If this email does not display properly, please view our online version.

TO: Commissioners, Deputies and Fly-In Participants

The Fly-In leave-behinds sent out to registered Fly-In attendees this afternoon inadvertently omitted data regarding total banking institutions supervised. Please disregard the version you received today. We will be sending out new versions on Wednesday.

I apologize for any confusion or inconvenience that this may cause.

In the meantime, please do not hesitate to contact me if you have any questions.

Thank you.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Wednesday, March 19, 2014 12:36 PM
To:	Owen, Jan Lynn@DBO
Subject:	CSBS fly-in -- Rep Waters speaking

Hi Jan,
I know that you aren't coming to the fly-in, but I wanted to let you know that Mrs. Waters just confirmed as a speaker today.
Thanks,
MCL

Margaret C. Liu
Senior Vice President and Deputy General Counsel
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(m) 202.368.1498

McQuinn, Michael@DBO

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Friday, March 21, 2014 1:47 PM
To:	Owen, Jan Lynn@DBO
Subject:	CSBS Fly-In: Final Updates

If this email does not display properly, please view our online version.

TO: COMMISSIONERS, DEPUTIES AND FLY-IN ATTENDEES

We are looking forward to seeing everyone next week for the 2014 Government Relations Fly-In. With what we hope is our final Fly-In message of the week, we wanted to provide you with some final updates.

The Weather. It will be on the cold side for most of next week, and yes, there is the possibility of snow in the Washington DC area this coming Tuesday. We are in touch with our speakers and venues about contingency plans.

Housing Finance Reform. As we discussed during the prep call, Senators Johnson (D-SD) and Crapo (R-ID) have introduced a housing finance reform bill. A high-level CSBS Staff Summary can be accessed here. In the coming weeks, CSBS will host calls focusing on various aspects of the proposal.

Please do not hesitate to contact Sandy Sussman (ssussman@csbs.org), Matt Lambert (mlambert@csbs.org) or me if you have any questions. To view the final agenda for the Fly-In, click here.

Have a good weekend and travel safely.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Friday, March 28, 2014 1:13 PM
To: david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; khagler@dbf.state.ga.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; maria.filipakis@dfs.ny.gov; Dunn, Stephen (DOB)
Cc: Michael Stevens; John Ryan; Buz Gorman; Chuck Cross; Jeanette Barraza; Margaret Liu; Matt Lambert
Subject: CSBS Emerging Payments Task Force Call -- April 1, 3:30 pm EDT
Attachments: CSBS Emerging Payments Task Force - April 1 call.ics; Draft Consumer Guidance on Virtual Currencies (2014 03 28) v2.docx

TO : CSBS EMERGING PAYMENTS TASK FORCE

This is a reminder that the Task Force's next call will be this Tuesday, April 1 at 3:30 pm EDT, 2:30 pm CDT, 1:30 pm MDT, and 12:30 pm PDT.

A calendar item is attached to this email. To access the call --
Dial: 1-888-827-6040
Passcode: REDACTED

Agenda

1. Proposed timeline/workplan. (Draft to be distributed prior to the call).
2. Draft model consumer guidance. Attached for the task force's discussion is draft model consumer guidance. For your information and reference, below are other examples of consumer guidance:
    a. Florida Office of Financial Regulation.
    b. Massachusetts Office of Consumer Affairs and Business Regulation.
    c. Washington State Department of Financial Institutions.
    d. Alabama Securities Commission.
    e. European Banking Authority.
3. Consumer survey or focus groups.
4. Minimum state regulatory standards.

Separately, as you may know, the IRS issued guidance earlier this week regarding federal income tax treatment of virtual currencies. Click here to access the IRS Guidance.

Please do not hesitate to contact me or Jeanette Barraza (jbarraza@csbs.org, 202.728.5739) if you have any questions.

We look forward to speaking with everyone on Tuesday.

Margaret C. Liu
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mliu@csbs.org

(o) 202.728.5749
(m) 202.368.1498

From: Margaret Liu <MLiu@csbs.org>
Sent: Monday, March 31, 2014 8:03 AM
To: Owen, Jan Lynn@DBO
Subject: CSBS Legislative Committee Call -- April 3 at 3:00 pm EDT

If this email does not display properly, please view our online version.

TO: CSBS LEGISLATIVE COMMITTEE

The April call of the CSBS Legislative Committee is this **Thursday, April 3 at 3:00 pm EDT, 2:00 pm CDT, 1:00 pm MDT, and 12 noon PDT.** As discussed during last week's CSBS Fly-In, this call will include an in depth discussion of the new Senate housing finance bill's (S. 1217) treatment of small lender access to the secondary mortgage market. Click here for a high-level CSBS Staff Summary of S. 1217.

Access Instructions:

Click here to add this to your Outlook calendar
Dial: 1-888-827-6040
Participant Passcode: REDACTED

Agenda:

1. S. 1217 (Johnson-Crapo version) and small lenders.
2. Open Forum.

Please do not hesitate to contact Sandy Sussman (202-407-7160,ssussman@csbs.org), Matt Lambert (202-407-7130, mlambert@csbs.org) or me if you have any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 | 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

McQuinn, Michael@DBO

Subject: CSBS Emerging Payments Task Force

Start: Tue 4/1/2014 12:30 PM
End: Tue 4/1/2014 1:30 PM

Recurrence: (none)

Toll Free Number: 1-888-827-6040

Participant Passcode: REDACTED

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Tuesday, April 01, 2014 8:50 AM
To: david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; khagler@dbf.state.ga.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; maria.filipakis@dfs.ny.gov
Cc: Michael Stevens; John Ryan; Buz Gorman; Chuck Cross; Jeanette Barraza; Margaret Liu; Matt Lambert
Subject: FW: CSBS Emerging Payments Task Force Call -- April 1, 3:30 pm EDT
Attachments: CSBS Emerging Payments Task Force - April 1 call.ics; Draft Consumer Guidance on Virtual Currencies (2014 03 28) v2.docx; EPTF -- Draft timeline.docx

TO : CSBS EMERGING PAYMENTS TASK FORCE

This is a reminder that the Task Force call is this afternoon at 3:30 pm EDT, 2:30 pm CDT, 1:30 pm MDT, and 12:30 pm PDT.

A calendar item is attached to this email. To access the call --
Dial: 1-888-827-6040
Passcode: REDACTED

Agenda

1. Proposed timeline/workplan. (draft attached)
2. Draft model consumer guidance. (draft attached)
   For your information and reference, below are other examples of consumer guidance:
   a. Florida Office of Financial Regulation.
   b. Massachusetts Office of Consumer Affairs and Business Regulation.
   c. Washington State Department of Financial Institutions.
   d. Alabama Securities Commission.
   e. European Banking Authority.
3. Consumer survey or focus groups.
4. Minimum state regulatory standards.

Click here to access the IRS Guidance issued last week.

Please do not hesitate to contact me or Jeanette Barraza (jbarraza@csbs.org, 202.728.5739) if you have any questions.

Please let me know if you will not be able to participate in the call.

Margaret C. Liu
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Washington DC 20036
mliu@csbs.org
(o) 202.728.5749
(m) 202.368.1498

Subject: CSBS Emerging Payments Task Force

Start: Tue 4/1/2014 12:30 PM
End: Tue 4/1/2014 1:30 PM

Recurrence: (none)

Toll Free Number: 1-888-827-6040

Participant Passcode: REDACTED

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Wednesday, April 02, 2014 1:16 PM
To: Owen, Jan Lynn@DBO
Subject: Reminder & Materials: CSBS Legislative Committee Call

If this email does not display properly, please view our online version.

TO: CSBS LEGISLATIVE COMMITTEE

The April call of the CSBS Legislative Committee is tomorrow, **Thursday, April 3 at 3:00 pm EDT, 2:00 pm CDT, 1:00 pm MDT, and 12 noon PDT.** As discussed during last week's CSBS Fly-In, this call will include an in depth discussion of the new Senate housing finance bill's (S. 1217) treatment of small lender access to the secondary mortgage market.

Links to S. 1217 (Johnson-Crapo) Supporting Materials:

- CSBS Summary
- Senate Banking Committee Summary
- Section-By-Section Overview
- S. 1217 Discussion Draft Text
- CSBS Small Creditor QM Securities Proposal

Access Instructions:

Click here to add this to your Outlook calendar.
Dial: 1-888-827-6040
Participant Passcode: REDACTED

Please do not hesitate to contact Sandy Sussman (202-407-7160, ssussman@csbs.org), Matt Lambert (202-407-7130, mlambert@csbs.org) or me if you have any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Wednesday, April 02, 2014 2:19 PM
To: Owen, Jan Lynn@DBO
Subject: Additional Materials: CSBS Legislative Committee Call

If this email does not display properly, please view our online version.

TO: CSBS LEGISLATIVE COMMITTEE

In addition to tomorrow's housing finance discussion, CSBS would like to briefly review payday lending issues currently being raised by the Senate Banking Committee. The Subcommittee on Financial Institutions and Consumer Protection held a hearing last week on payday lending, including representatives from the industry pursuing a federal charter.

CSBS drafted a letter for the record of the hearing. The letter is based solely on testimony delivered on the subject before the House Financial Services Committee in 2012 by Nebraska Director John Munn. The letter is available here.

Apologies for multiple emails. Please direct questions to Sandy Sussman (202-407-7160, ssussman@csbs.org), Matt Lambert (202-407-7130, mlambert@csbs.org) or myself. We look forward to the call tomorrow.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Friday, April 04, 2014 2:55 PM
To:	david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; khagler@dbf.state.ga.us; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; maria.filipakis@dfs.ny.gov
Cc:	John Ryan; Buz Gorman; Chuck Cross; Jeanette Barraza; Margaret Liu; Matt Lambert; Michael Stevens; Catherine Woody
Subject:	CSBS Emerging Payments Task Force -- follow-ups
Attachments:	Draft Consumer Guidance on Virtual Currencies (2014 04 04) v4.docx

To : CSBS Emerging Payments Task Force

Thanks for the extensive discussion and engagement during this week's Task Force call. We wanted to follow-up with the Task Force on some items that were discussed during the call.

Model Consumer Guidance
Several of you have sent us comments on the draft consumer guidance. The attached draft reflects the input we have received. Please send comments by COB Tuesday, April 8.
The Task Force also discussed reaching out to NASAA to see their interest in making the guidance a joint CSBS-NASAA document. We have discussed with NASAA staff who will raise with NASAA's Board, which happens to be meeting in person this weekend. We will send the attached draft to NASAA staff to share with their Board and communicate the Task Force's plan to issue the guidance during April.

Possible Public Event in Chicago Around the SFSF
Timing -- Based on the Task Force discussion and additional staff work, we wanted to suggest two possible dates around the SFSF when the Task Force could hold a public event:

1. Monday, May 12 – The event could start late morning and go through to mid-afternoon. This would not conflict with any SFSF sessions, though the following groups are scheduled to meet starting at 1:00 pm – the Educations Foundation Board, the SRR Board, and the Bankers' Advisory Board.
2. Friday, May 16 – The event could start first thing in the morning and run through midday. There are no SFSF or other CSBS meeting scheduled for Friday morning. One benefit for this date and time is that the Task Force members would benefit from any discussions related to payments and the payment system that might occur during both the state-only and the state-federal portions of the SFSF.

Format – Our suggestion is that the event be structured hearing-style, with three panels of speakers presenting to the task force and then taking questions from Task Force members. Each panel could run for 60 to 75 minutes, with three or four speakers per panel. Possible themes for the panels:

- Legacy Payment Systems – Opportunities for Improvement and Modernization
- Retail Payments Innovations
- Virtual Currencies

Please provide your feedback on the scheduling and format of the event as soon as possible and no later than noon on Tuesday, April 8.

Please contact me or Jeanette Barraza (202.728.5708) if you have any questions.

Thanks and have a good weekend.

Margaret C. Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
1129 20th Street, NW, Suite 900
Washington DC 20036
mliu@csbs.org
(o) 202.728.5749
(m) 202.368.1498

McQuinn, Michael@DBO

Subject: CSBS Emerging Task Force Monthly Call - May 6

Start: Tue 5/6/2014 12:30 PM
End: Tue 5/6/2014 1:30 PM

Recurrence: (none)

Toll Free Number: 1-888-827-6040

Participant Passcode: REDACTED

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Friday, April 11, 2014 7:50 AM
To:	david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; khagler@dbf.state.ga.us; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; maria.filipakis@dfs.ny.gov
Cc:	Catherine Woody; Chuck Cross; Jeanette Barraza; Michael Stevens; John Ryan
Subject:	CSBS Emerging Payments Task Force -- Updates
Attachments:	CSBS Emerging Task Force Monthly Call - May 6.ics; State Regulator Talking Points on Emerging Payments Task Force Hearing V2.docx; Public Hearing Notice.docx

TO : Task Force Members

This message covers three items: the public hearing, the draft model consumer guidance, and the next task force call.

Public Hearing

Thank you for your feedback on the public hearing. The event will be on Friday, May 16, starting at 9 am and concluding around 1:30 pm. It will be held at the Hyatt Chicago Magnificent Mile, the same location as the SFSF. As proposed earlier, the hearing will consist of three topical panels on the following:

- Legacy Payment Systems
- Retail Payments Innovations
- Virtual Currencies

Each panel will last one hour.

We plan to announce the hearing on Monday, April 14. In advance of the announcement, please treat this information as confidential and not to be shared outside of your agencies.
Attached are talking points to assist you with any inquiries you may receive on the hearing. Additionally, all Commissioners will receive advance notification on Monday, prior to the release of the hearing notice.

A draft of the notice is attached for your information.

Consumer Guidance

Thanks to everyone for the feedback. Following up on the Task Force call, we reached out to NASAA to discuss making the guidance a joint release. NASAA would like to issue the release jointly and the attached draft reflects their comments.

Because of the announcement of the hearing on April 14, we plan to issue the Model Consumer Guidance on Monday, April 21. We will circulate a revised version of the guidance early next week.

Next Task Force Call

As discussed during the April call, the next Task Force call is scheduled for Tuesday, May 6 at 3:30 pm EDT. A calendar item is attached to this message.

To access the call:
Dial 1-888-827-6040
Passcode: REDACTED

Additionally, we expect to schedule another call in late April to discuss the public hearing.

Thanks and please do not hesitate to contact Jeanette Barraza or myself if you have any questions.

Margaret C. Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
1129 20th Street, NW, Suite 900
Washington DC 20036
mliu@csbs.org
(o) 202.728.5749
(m) 202.368.1498

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Monday, April 14, 2014 9:19 AM
To:	Owen, Jan Lynn@DBO
Subject:	RE: CSBS Emerging Payments Task Force -- Updates

Thanks for letting me know. Sorry about that. Let me know if your plans change.
Look forward to seeing you at the SFSF.
MCL

Margaret C. Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
1129 20th Street, NW, Suite 900
Washington DC 20036
mliu@csbs.org
(o) 202.728.5749
(m) 202.368.1498

From: Owen, Jan Lynn@DBO [mailto:JanLynn.Owen@dbo.ca.gov]
Sent: Monday, April 14, 2014 12:17 PM
To: Margaret Liu
Subject: RE: CSBS Emerging Payments Task Force -- Updates

Margaret: please be advised I will not be able to attend the public hearing on Friday. Thank you. Jan

Jan Lynn Owen
Commissioner

California Department of Business Oversight
1515 K Street Suite 200
Sacramento, California 95814

www.dbo.ca.gov

From: Margaret Liu [MLiu@csbs.org]
Sent: Friday, April 11, 2014 7:50 AM
To: david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; khagler@dbf.state.ga.us; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; maria.filipakis@dfs.ny.gov
Cc: Catherine Woody; Chuck Cross; Jeanette Barraza; Michael Stevens; John Ryan
Subject: CSBS Emerging Payments Task Force -- Updates

TO : Task Force Members

This message covers three items: the public hearing, the draft model consumer guidance, and the next task force call.

Public Hearing

Thank you for your feedback on the public hearing. The event will be on Friday, May 16, starting at 9 am and concluding around 1:30 pm. It will be held at the Hyatt Chicago Magnificent Mile, the same location as the SFSF. As proposed earlier, the hearing will consist of three topical panels on the following:

- Legacy Payment Systems
- Retail Payments Innovations
- Virtual Currencies

Each panel will last one hour.

We plan to announce the hearing on Monday, April 14. In advance of the announcement, please treat this information as confidential and not to be shared outside of your agencies.
Attached are talking points to assist you with any inquiries you may receive on the hearing. Additionally, all Commissioners will receive advance notification on Monday, prior to the release of the hearing notice.

A draft of the notice is attached for your information.

Consumer Guidance

Thanks to everyone for the feedback. Following up on the Task Force call, we reached out to NASAA to discuss making the guidance a joint release. NASAA would like to issue the release jointly and the attached draft reflects their comments.

Because of the announcement of the hearing on April 14, we plan to issue the Model Consumer Guidance on Monday, April 21. We will circulate a revised version of the guidance early next week.

Next Task Force Call

As discussed during the April call, the next Task Force call is scheduled for Tuesday, May 6 at 3:30 pm EDT. A calendar item is attached to this message.
To access the call:
Dial 1-888-827-6040
Passcode: REDACTED

Additionally, we expect to schedule another call in late April to discuss the public hearing.

Thanks and please do not hesitate to contact Jeanette Barraza or myself if you have any questions.

Margaret C. Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
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(o) 202.728.5749
(m) 202.368.1498

Effective July 1, 2013, the Department of Corporations and the Department of Financial Institutions merged to form the Department of Business Oversight in accordance with the Governor's reorganization of state departments to provide services more efficiently and effectively.

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McGuffin, Matthew@DBO

From: Catherine Woody <cwoody@csbs.org>
Sent: Monday, April 14, 2014 9:46 AM
To: Mirrashidi, Lila@DBO
Subject: FYI: CSBS to Announce Public Hearing

If this email does not display properly, please view our online version.

April 14, 2014

To Commissioners and Deputies:

Later today, CSBS will announce that the CSBS Emerging Payments Task Force will hold a public hearing on Friday, May 16 at 9:00 am at the Hyatt Chicago Magnificent Mile. The hearing will be the morning after the State Federal Supervisory Forum concludes. The hearing will last from 9:00 am to 1:30 pm, with three topical panels covering a range of payments issues.

For additional information, please see the hearing notice. As the hearing notice indicates, attendance will be by registration. We expect to be able to accommodate any Commissioner, Deputy or state regulatory agency staff interested in attending.

We expect that Commissioners may receive inquiries from media and other interested parties about the hearing. CSBS staff have prepared talking points to assist you and you staff in responding to inquiries.

If you or your staff have questions about the event, please do not hesitate to contact Margaret Liu (mliu@csbs.org or 202-728-5749) or Catherine Woody (cwoody@csbs.org or 202-728-5733).

Best,
Catherine

H. Catherine Woody
Vice President of Media and Industry Relations
Conference of State Bank Supervisors
1129 20th Street, NW
Ninth Floor
Washington, D.C. 20036-4306
202-728-5733direct
202-285-3289 cell
cwoody@csbs.org

Click here if you prefer not to receive any further email from CSBS.

From: Margaret Liu <MLiu@csbs.org>
Sent: Tuesday, April 22, 2014 5:00 AM
To: david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; khagler@dbf.state.ga.us; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; maria.filipakis@dfs.ny.gov
Cc: Michael Stevens; John Ryan; Buz Gorman; Chuck Cross; Jeanette Barraza; Margaret Liu; Matt Lambert; Catherine Woody; Rockhelle Johnson; Mary Beth Quist; James Cooper
Subject: Model Consumer Guidance and May 16 Hearing
Attachments: Draft Consumer Guidance on Virtual Currencies (2014 04 21) v6.docx

To : CSBS Emerging Payments Task Force

Model Consumer Guidance: Thanks to you and your staffs for the input on the draft model consumer guidance. As previously mentioned, NASAA accepted our offer to make the guidance a joint CSBS-NASAA document. The latest version is attached and reflects our efforts to address and reconcile the many helpful suggestions we received._We expect to issue the guidance within the next day or two.

May 16 Hearing: For Task Force Members unable to attend, please let me know if you would like to designate a member of your staff to sit and participate with the Task Force during the hearing.

Please let me or Jeanette Barraza know if you have any questions.

Margaret C. Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
1129 20th Street, NW, Suite 900
Washington DC 20036
mliu@csbs.org
(o) 202.728.5749
(m) 202.368.1498

From: Margaret Liu <MLiu@csbs.org>
Sent: Wednesday, April 23, 2014 10:05 AM
To: Owen, Jan Lynn@DBO
Subject: CSBS to Issue Model Consumer Guidance on Virtual Currencies

If this email does not display properly, please view our online version.

TO: Commissioners and Deputies

The CSBS Emerging Payments Task Force has developed model consumer guidance regarding virtual currencies. A press release announcing the guidance will be issued jointly by CSBS and NASAA later today.

The model consumer guidance came about as a result of requests from State Banking Commissioners on and off the Task Force. The purpose of the model guidance is to provide state regulators with a tool to support consumer education and outreach on virtual currency. The document is modeled on consumer guidance issued by some states and foreign banking authorities; the document provides a brief explanation of virtual currency and lists some factors consumers should consider when investing in or transacting with virtual currencies. The model guidance serves as a template that your agency may wish to use, modify or borrow from as you see fit.

Please contact Jeanette Barraza (jbarraza@csbs.org) or me if you have any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

From: Margaret Liu <MLiu@csbs.org>
Sent: Wednesday, April 23, 2014 10:24 AM
To: Owen, Jan Lynn@DBO
Subject: CSBS Housing Finance Letter

If this email does not display properly, please view our online version.

To: Legislative Committee

Re: Approval of CSBS Housing Finance Letter to Senate Banking Committee

CSBS has drafted a letter to the Senate Banking Committee in advance of the Committee's markup of S. 1217, the housing finance reform bill. The letter is derived from last month's Legislative Committee call on the bill and previous housing policies. The letter focuses on small lender access to the secondary market, coordination with state regulators, and limiting the potential for preemption. The letter is available here.

Please review the letter and raise any concerns by COB Thursday, April 24th. If there are no fatal flaws raised, CSBS will submit the letter to the Senate Banking Committee on Friday, April 25th.

Please contact Matt Lambert (mlambert@csbs.org -- (202) 407-7130) or myself with any questions or comments.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

McGuffin, Matthew@DBO

From: Jeanette Barraza <JBarraza@csbs.org>
Sent: Thursday, April 24, 2014 7:45 AM
To: Venchiarutti, Robert@DBO; Salehjee, Shahid@DBO; Posey, Richard@DBO; greg.oaks@flofr.com; Andy.Grosmaire@flofr.com; rgrace@nccob.gov; mray@nccob.gov; roldham@nccob.gov; bparker@nccob.gov; msheehan@nccob.gov; sweed@nccob.gov; dale.lashomb@dfs.ny.gov; Mahabir.Mangra@dfs.ny.gov; Robert.Mengani@dfs.ny.gov; jean.walsh@dfs.ny.gov; martin.cofsky@dfs.ny.gov; John.Bishop@com.state.oh.us; Charles.Dolezal@com.state.oh.us; rywalsh@pa.gov; kwatkins@pa.gov; jesus.saucillo@dob.texas.gov; stephanie.newberg@dob.texas.gov; karen.heede@scc.virginia.gov; Adam.Johnson@dfi.wa.gov; rick.st.onge@dfi.wa.gov; Deborah.bortner@dfi.wa.gov; ryan.seals@wyo.gov; Chuck Cross; John Ryan
Cc: SShermer@Shermer-assoc.com
Subject: State Regulators to Hold Public Hearing on Payment Systems Issues

Hello everyone,

As mentioned on the MMET call yesterday, here is the media advisory that went out on the public hearing that will take place in Chicago, Illinois on Friday May 16th.

If you have any questions, please let me know.

Thank you.

Jeanette Barraza
Director of Supervisory Processes
BSA and Non-Depository Supervision
jbarraza@csbs.org
202.728.5708

If this email does not display properly, please view our online version.

April 14, 2014

MEDIA ADVISORY

Conference of State Bank Supervisors
1129 20th Street, NW, Ninth Floor, Washington, DC, 20036

State Regulators to Hold Public Hearing on Payment Systems Issues

Public Hearing Will Examine the Opportunities and Risks of Current and Emerging Payment Systems, Products, and Services

Washington, DC—The Conference of State Bank Supervisors (CSBS), through its Emerging Payments Task Force, announces a public hearing on emerging payments issues.

The hearing, which will be open to the public and to media, is part of the Task Force's efforts to examine the changing payments landscape to understand the opportunities and risks of current and emerging technologies, products, and services that impact monetary, regulatory, and consumer decisions.

Please refer to the hearing notice for additional information, including how to submit a request to attend the hearing or to participate as a panelist.

Who:	CSBS Emerging Payments Task Force
What:	Public Hearing on Emerging Payments
When:	Friday, May 16, 2014 9:00 am to 1:30 pm Central
Where:	Hyatt Chicago Magnificent Mile 633 N. St. Clair Street Chicago, IL 60611
How:	See the hearing notice.

#　　#　　#

Hearing Contact:
Margaret Liu, Senior Vice President and Deputy General Counsel, mliu@csbs.org or 202.728.5749

Media Contacts:
Catherine Woody, Vice President of Media and Industry Relations, cwoody@csbs.org or 202.728.5733
Rockhelle Johnson, Senior Manager of Communications, rjohnson@csbs.org or 202.407.7156
Matthew Longacre, Manager of Communications, mlongacre@csbs.org or 202.803.8091

About CSBS:
The Conference of State Bank Supervisors (CSBS) is the nationwide organization of banking regulators from all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. State banking regulators supervise nearly 5,200 state-chartered financial institutions. Further, most state banking departments also regulate a variety of non-bank financial services providers, including mortgage lenders. For more than a century, CSBS has given state supervisors a national forum to coordinate supervision of their regulated entities and to develop regulatory policy. CSBS also provides training to state banking and financial regulators and represents its members before Congress and the federal financial regulatory agencies.

About the CSBS Emerging Payments Task Force:
In February 2014, CSBS launched its Emerging Payments Task Force to take a comprehensive look at the changing payments landscape. The Task Force will seek to identify

opportunities for a coordinated state approach to payments issues as well as promote compliance, security, and protection for consumers.

H. Catherine Woody
Vice President of Media and Industry Relations
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202-285-3289 cell
cwoody@csbs.org

Click here if you prefer not to receive any further email from CSBS.

McGuffin, Matthew@DBO

From: Jeanette Barraza <JBarraza@csbs.org>
Sent: Friday, April 25, 2014 7:50 AM
To: Venchiarutti, Robert@DBO; Salehjee, Shahid@DBO; Posey, Richard@DBO; greg.oaks@flofr.com; Andy.Grosmaire@flofr.com; rgrace@nccob.gov; mray@nccob.gov; roldham@nccob.gov; bparker@nccob.gov; msheehan@nccob.gov; sweed@nccob.gov; dale.lashomb@dfs.ny.gov; Mahabir.Mangra@dfs.ny.gov; Robert.Mengani@dfs.ny.gov; jean.walsh@dfs.ny.gov; martin.cofsky@dfs.ny.gov; John.Bishop@com.state.oh.us; Charles.Dolezal@com.state.oh.us; rywalsh@pa.gov; kwatkins@pa.gov; jesus.saucillo@dob.texas.gov; stephanie.newberg@dob.texas.gov; karen.heede@scc.virginia.gov; Adam.Johnson@dfi.wa.gov; rick.st.onge@dfi.wa.gov; Deborah.bortner@dfi.wa.gov; ryan.seals@wyo.gov; Chuck Cross; John Ryan
Cc: SShermer@Shermer-assoc.com
Subject: CSBS and NASAA Release Guidance on Virtual Currency

Hello everyone,

Attached is the media notice that went out on the release of the Virtual Currency guidance. Please let me know if you have any questions.

CSBS

NASAA

4/23/2014
Media Release

Conference of State Bank Supervisors
1129 20th Street, NW, 9th Floor, Washington, DC, 20036

North American Securities Administrators Association
750 First Street NE, Suite 1140, Washington, DC 20002

CSBS and NASAA Release Guidance on Virtual Currency

Provides Consumers and Investors with Factors to Consider

Washington, DC—The Conference of State Bank Supervisors (CSBS), through its Emerging Payments Task Force, and the North American Securities Administrators Association (NASAA) released today Model State Consumer and Investor Guidance on Virtual Currency.

This model consumer guidance is designed to assist state regulatory agencies in providing consumers with information about virtual currency as well as what factors consumers should consider when transacting with or investing in virtual currencies. The model guidance explains what virtual currency is, provides a list of risks consumers should consider when investing, and reminds consumers to research what sort of regulation, if any, would apply to virtual currency transactions or investments in their state.

- Specifically, the guidance encourages consumers to consider the following before investing in virtual currency:
- Do your homework.
- Virtual currencies and companies dealing in virtual currencies may or may not be regulated.

- Virtual currencies can be stolen or otherwise subject to cybercrime.
- Virtual currencies are volatile in value.
- Virtual currencies have been connected to criminal activities.
- Virtual currency transactions may be taxable.

The Model State Consumer Guidance on Virtual Currency can be read here.

Background Information:

In February 2014, state regulators, through CSBS, launched the Emerging Payments Task Force to take a comprehensive look at the changing payments landscape. The Task Force will seek to identify opportunities for a coordinated state approach to payments issues as well as promote compliance, security, and protection for consumers.

# # #

CSBS Media Contacts:
Catherine Woody, Vice President of Media and Industry Relations, cwoody@csbs.org or 202.728.5733
Rockhelle Johnson, Senior Manager, Communications, rjohnson@csbs.org or 202.407.7156
Matt Longacre, Manager, Communications, mlongacre@csbs.org or 202.803.8091

NASAA Media Contact:
Bob Webster, Director of Communications, bw@nasaa.org or 202.737.0900

About CSBS:
The Conference of State Bank Supervisors (CSBS) is the nationwide organization of banking regulators from all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. State banking regulators supervise nearly 5,200 state-chartered financial institutions. Further, most state banking departments also regulate a variety of non-bank financial services providers, including mortgage lenders. For more than a century, CSBS has given state supervisors a national forum to coordinate supervision of their regulated entities and to develop regulatory policy. CSBS also provides training to state banking and financial regulators and represents its members before Congress and the federal financial regulatory agencies.

About NASAA:
The North American Securities Administrators Association (NASAA) is the oldest international organization devoted to investor protection. NASAA's membership consists of 67 state, provincial, and territorial securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada and Mexico. In the United States, NASAA is the voice of state securities agencies responsible for efficient capital formation and grass-roots investor protection. For more information, visit www.nasaa.org.

California Department of Business Oversight

Jan Lynn Owen
Commissioner

2014 Women in Banking Forum
May 29, 2014
Huntington Beach

Effective July 1, 2013, the Department of Business Oversight (DBO) was created by the consolidation of the former Department of Financial Institutions and the former Department of Corporations

DBO Executive Office

Jan Lynn Owen, Commissioner
Dave O'Toole, Chief Deputy Commissioner
Dawne Bortolazzo, Deputy Commissioner for Administration
Louisa Broudy, Deputy Commissioner for Mortgage Lending
Scott Cameron, Deputy Commissioner for Banking
Lila Mirrashidi, Deputy Commissioner for Law and Policy
Erick Orellana, Deputy Commissioner for Credit Unions
Kathleen Partin, Deputy Commissioner for Financial Services
Patty Salazar, Deputy Commissioner for Public Affairs
Mary Ann Smith, Deputy Commissioner for Enforcement
Jerry Twomey, Deputy Commissioner for Broker-Dealers and Investment Advisors
Robert Venchiarutti, Deputy Commissioner for Money Transmitters

DBO regulates more than 360,000 entities in California, including:

- 156 state-chartered banks
- 31 foreign banks, and
- 6 industrial banks
- 8 trust companies
- 284,666 broker-dealer agent registrations
- 51,951 investment adviser representative registrations
- 18,924 mortgage loan originators
- 4,814 finance lenders
- 2,068 payday lenders
- 938 escrow agents
- 352 mortgage bankers
- 146 state-chartered credit unions
- 107 premium finance companies
- 83 money transmitters

As reported in the Department's April Monthly Executive Report

California Economic Rebound and Benefits Banks

In 2013:

- California's unemployment rate dropped to 8.3 percent in December
- Single-family and multi-family housing permits both experienced month-over-month and year-over-year increases in December
- Residential permits were up almost 43 percent

California Economic Rebound Benefits Banks (Cont.)

- Nonresidential permits rose 46 percent
- Sales of existing single-family homes totaled 361,890 units at a seasonally adjusted annualized rate in December
- Home prices reversed a three-month decline and climbed in December. The median price of existing, single-family homes sold in December was $438,000

Source: Department of Finance

State / National Bank Comparison

California Headquartered Institutions (as of 12/31/13)

	# State	percent of total	# Nat'l	percent of total
< $100MM	14	8%	8	20%
$100MM - $500MM	87	52%	19	48%
$500MM - $2B	43	26%	7	18%
$2B - $10B	16	10%	2	5%
Over $10B	6	4%	4	10%
Total	166	100%	40	100%

State / National Bank Comparison

Total Asset Size (as of 12/31/13)

	$ State	percent of total	$ Nat'l	percent of total
< $100MM	1.0	0%t	0.5	0%
$100MM - $500MM	21.4	7%	3.9	2%
$500MM - $2B	42.1	14%	7.3	4%
$2B - $10B	66.7	21%	11.5	6%
$10B and >	180.0	58%	176.1	88%
Total	311.2	100%	199.4	100%

Total assets in billions of dollars

DEPARTMENT OF BUSINESS OVERSIGHT
CALIFORNIA

Condition of Banking in California

- 156 state-chartered banks with over $315 billion in assets
- 6 industrial banks with $9 billion in assets
- 31 foreign banks with $30 billion in assets

As reported in the Department's April Monthly Executive Report

DEPARTMENT OF BUSINESS OVERSIGHT
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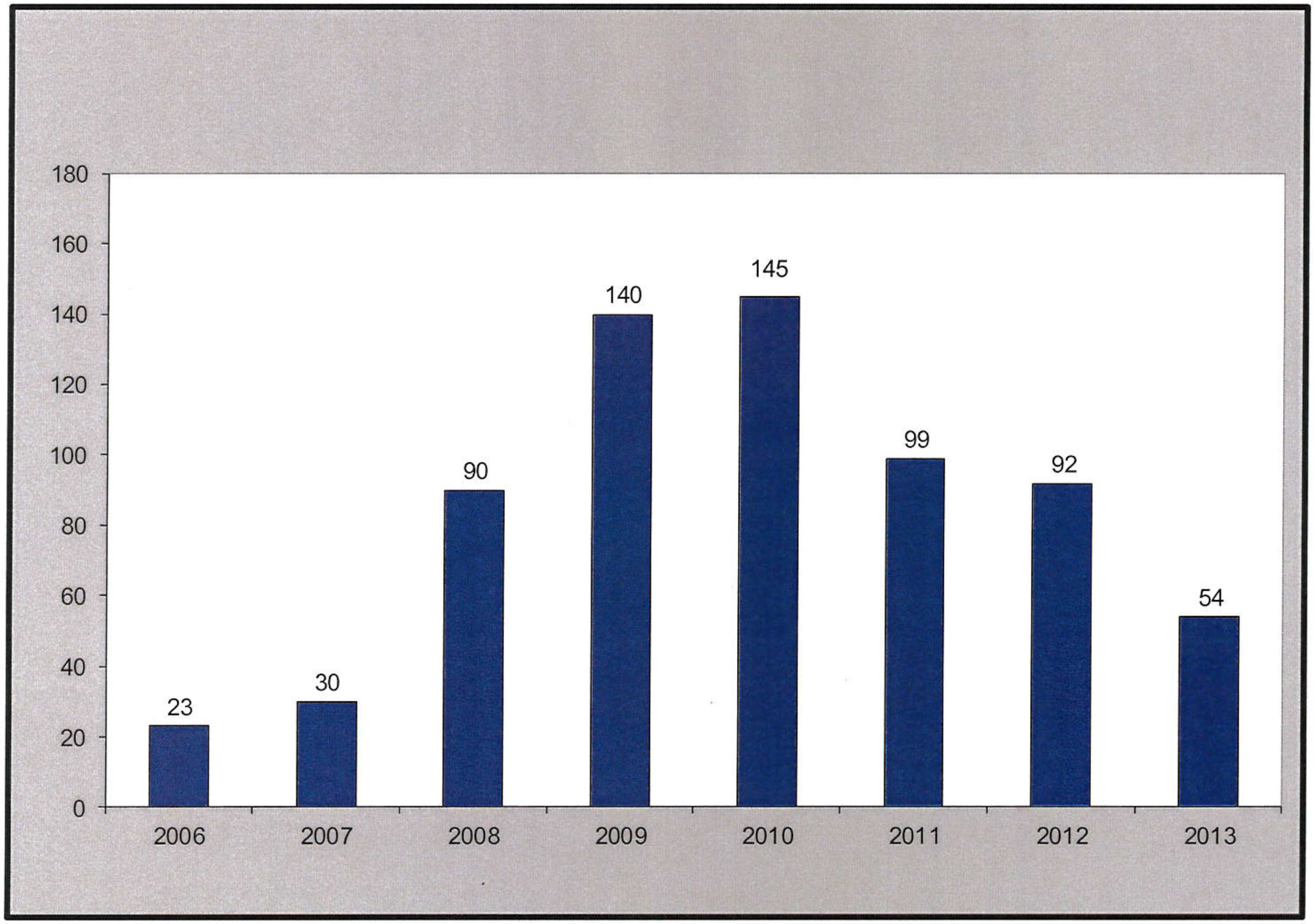
CALIFORNIA

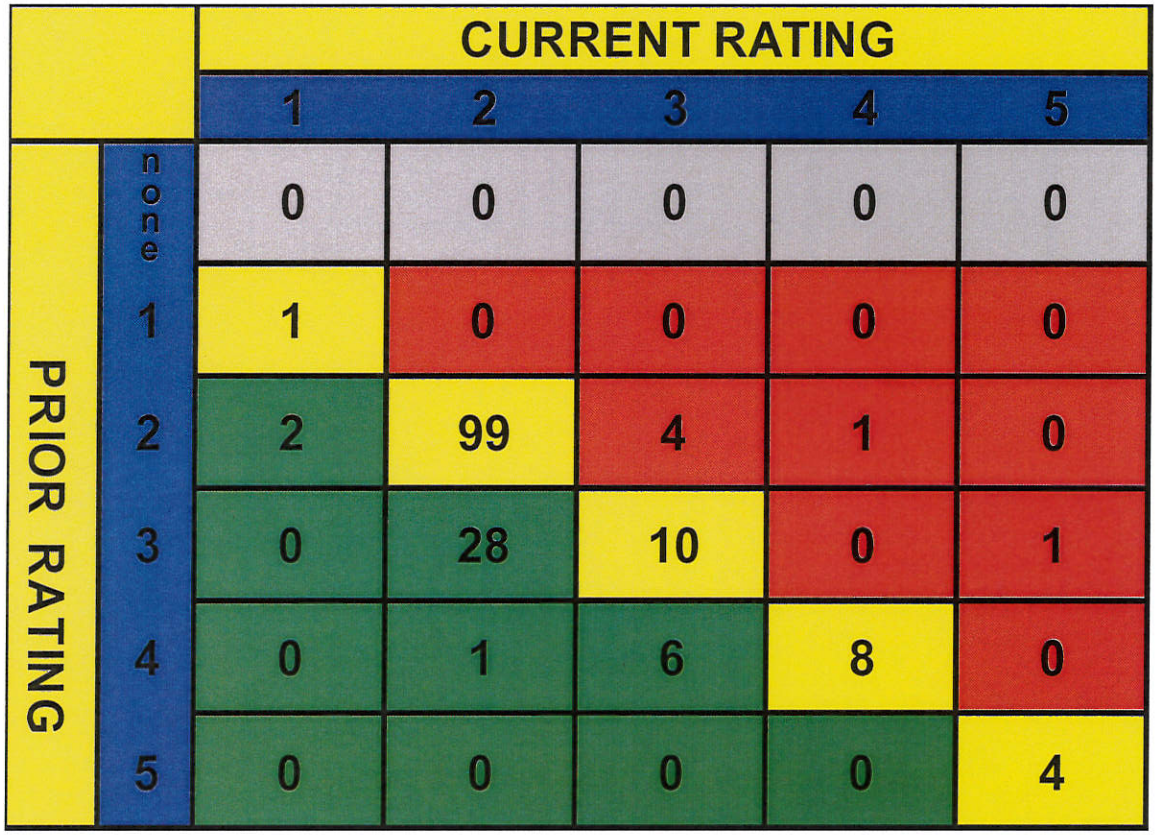
Condition of Banking in California

- State-chartered community banks —those under $2 billion— account for 86% of DBO licensees
  - Hold 21% of total assets
- Banks over $2 billion account for 14% of DBO-licensed banks
  - Hold 79% of total assets
- No California state-chartered bank failures since 2011

Enforcement Actions



CA Bank Examination Trends



		CURRENT RATING				
		1	2	3	4	5
PRIOR RATING	none	0	0	0	0	0
	1	1	0	0	0	0
	2	2	99	4	1	0
	3	0	28	10	0	1
	4	0	1	6	8	0
	5	0	0	0	0	4

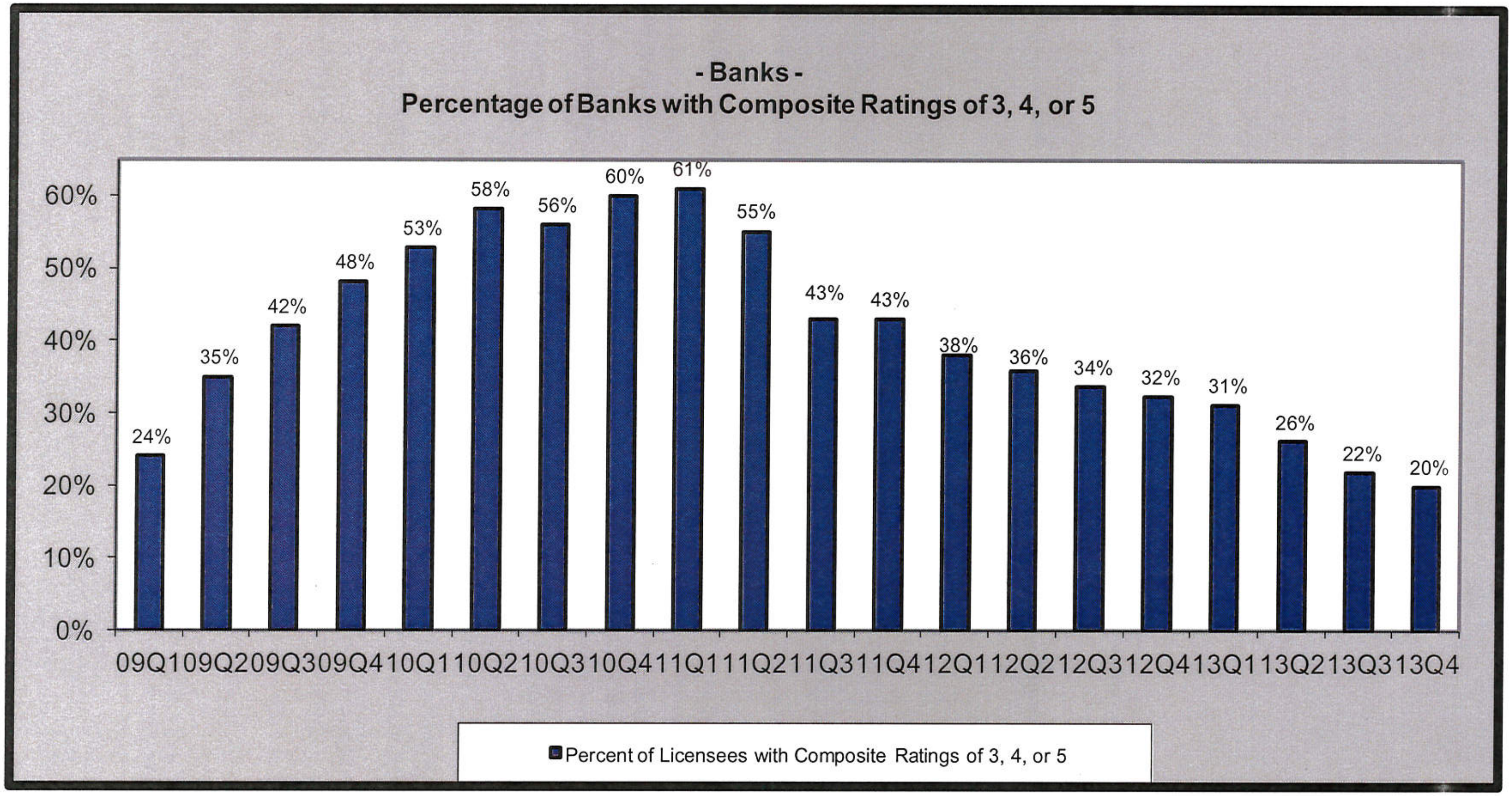
🟥 Declining

🟨 Stable

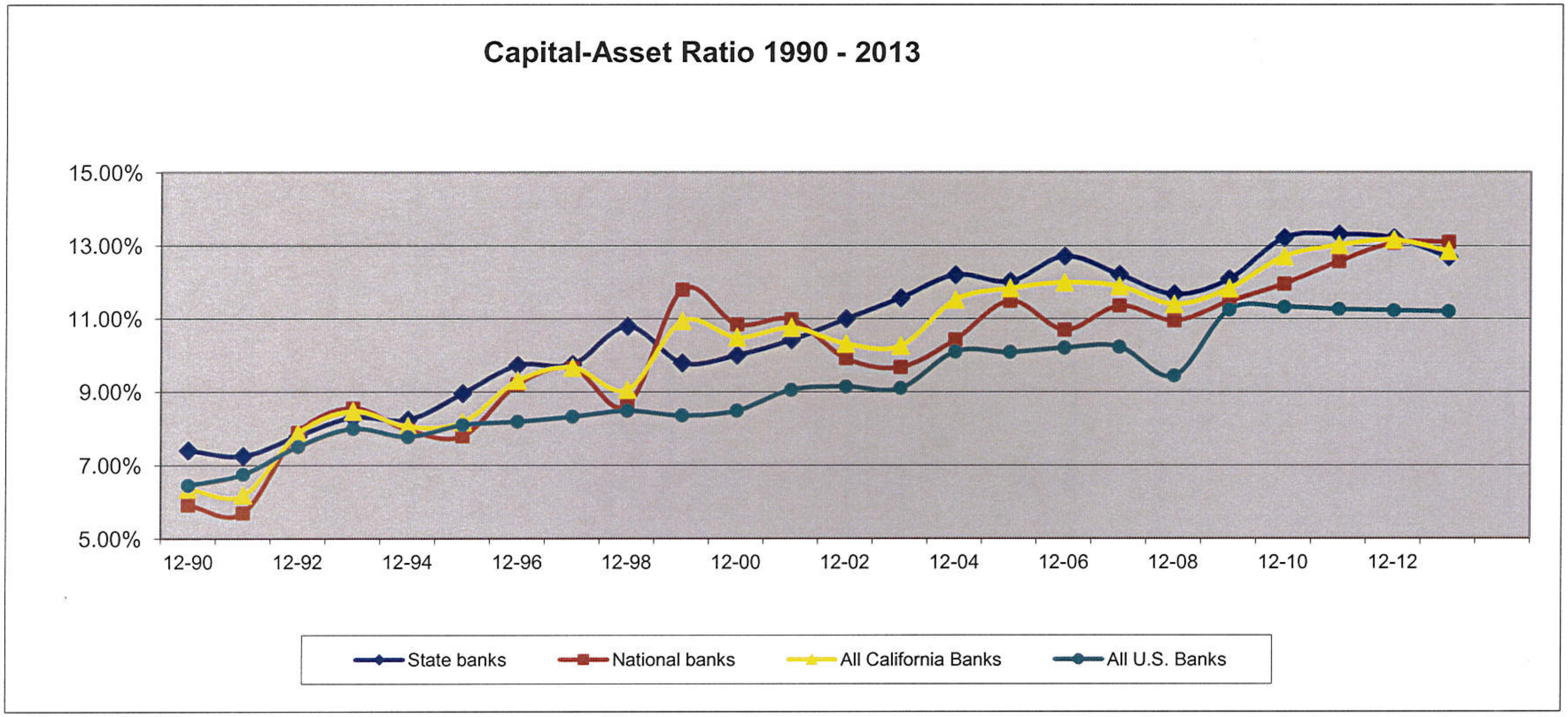
🟩 Improving

Note: 1 institution has not yet been assigned a rating

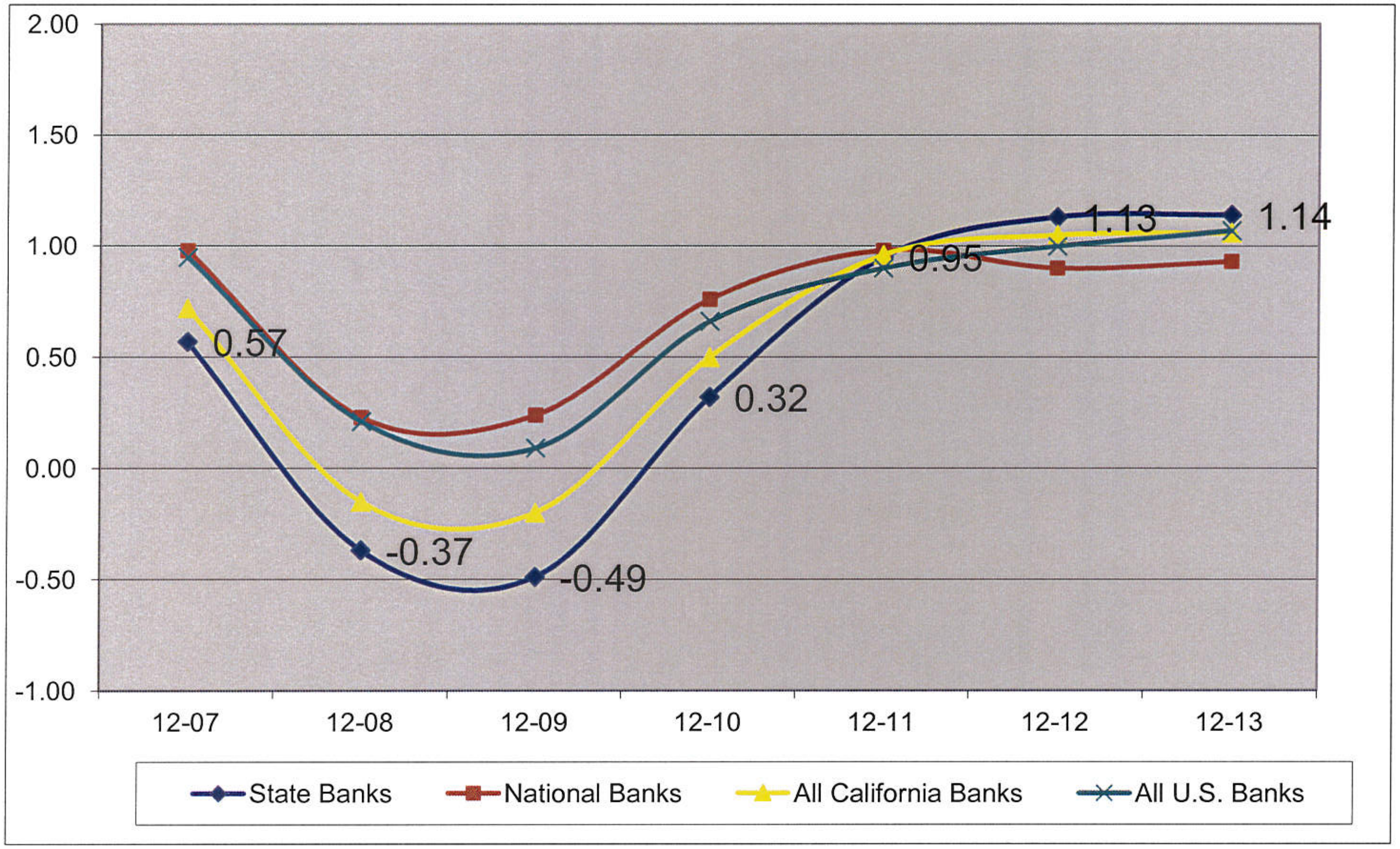
Decrease in Problem Banks



Capital Adequacy



Return on Assets



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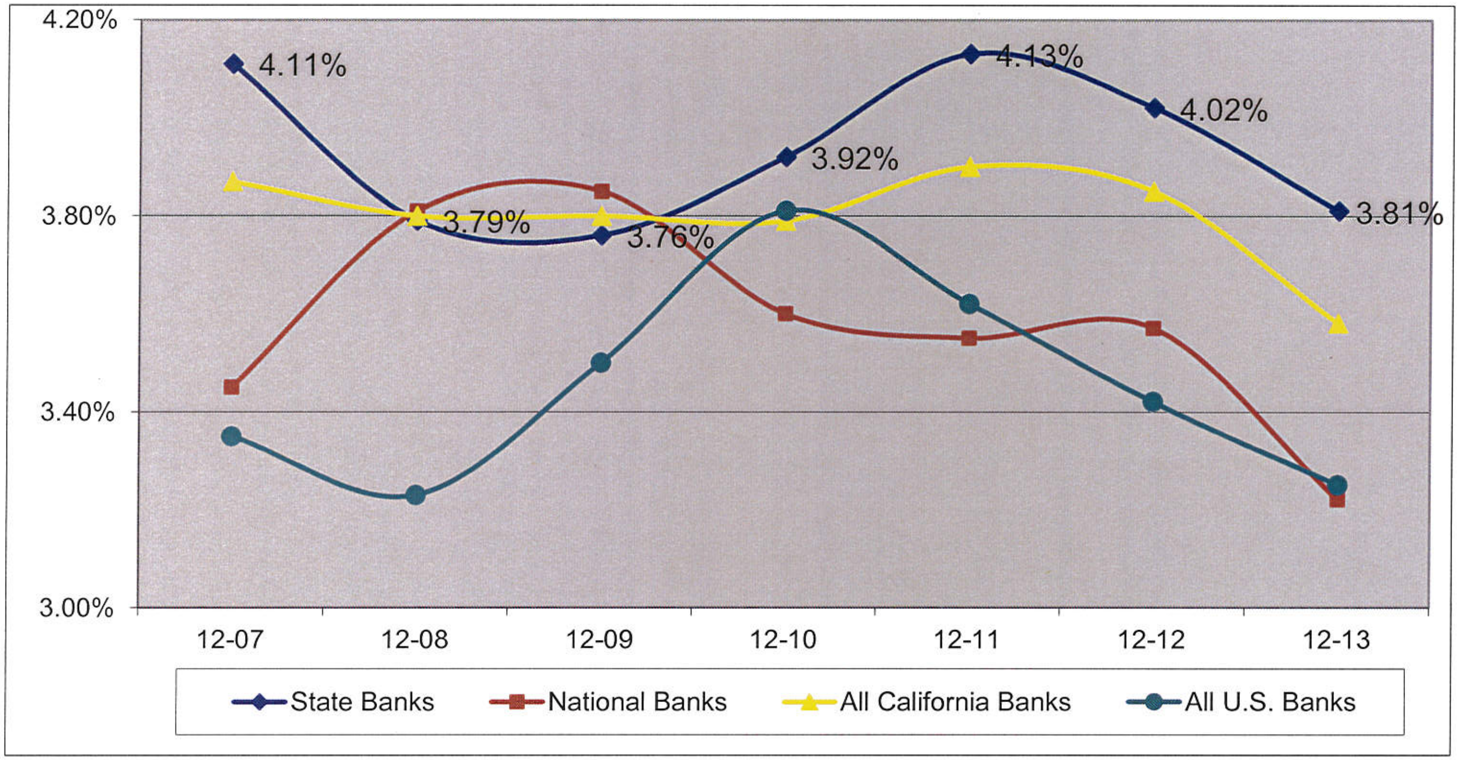
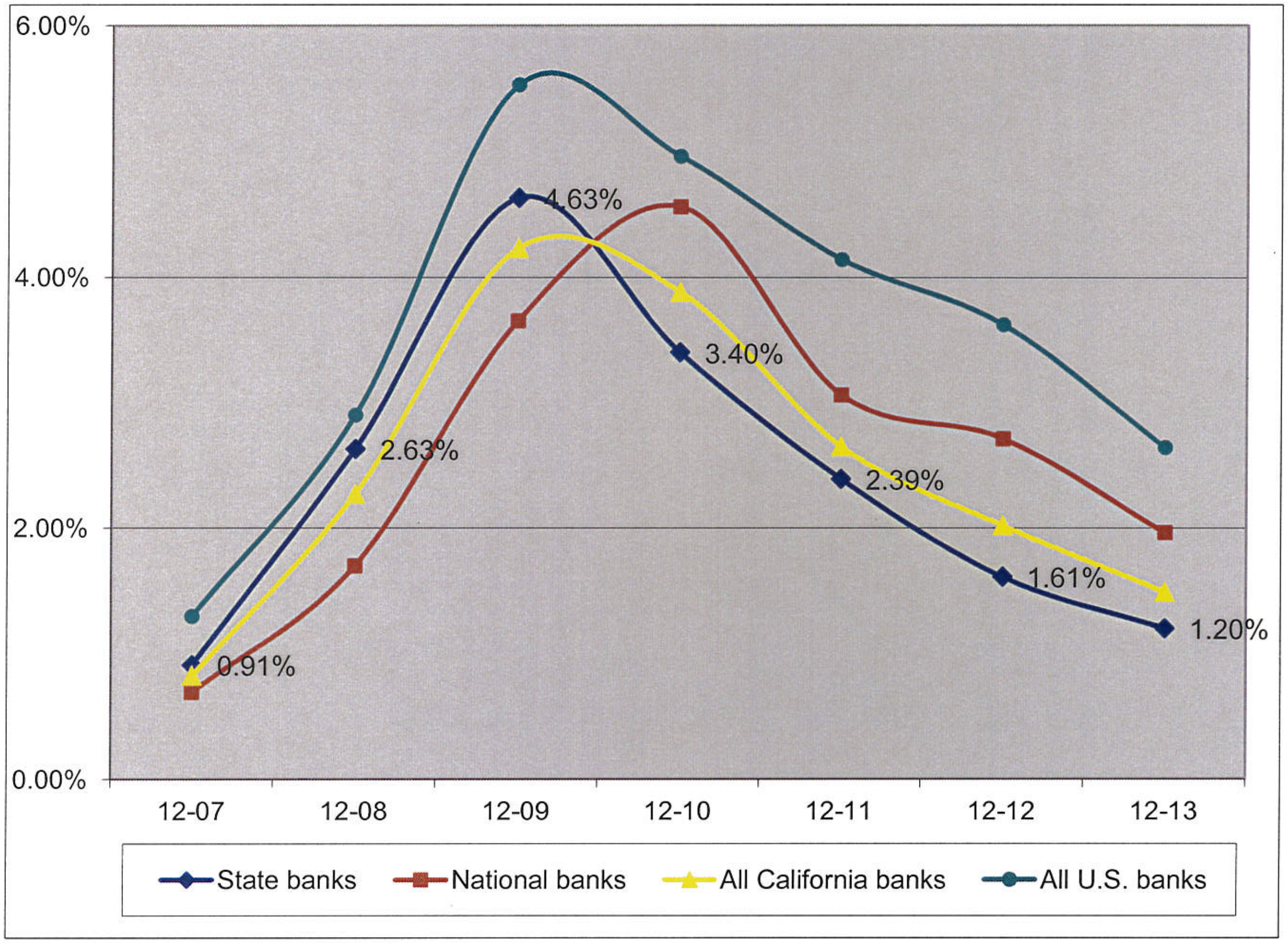
Net Interest Margin



Noncurrent Loans and Leases



Trends in Banking

- Profitability continues to trend upward
- Asset quality is improving
- Lending continues to rebound
- Areas of weakness remain, particularly in small-business lending

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CALIFORNIA

Mergers & Acquisitions

Year	# of M&A
2011	11
2012	12
2013	16
2014	4

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Hot Topics

Virtual Currency

- Fitting virtual currency exchanges into a statutory framework designed for traditional currency.
- California is closely monitoring and consulting with other states and federal authorities who are also evaluating their regulatory authority over virtual currency and virtual payment companies.

DBO Virtual Currency Advisory

What You Should Know About Virtual Currencies

Virtual currencies have been around almost as long as the Internet and in the last few years they have evolved rapidly towards a product suitable for the financial mainstream. With that rapid evolution has come many questions—legal, practical, technological and otherwise—about the promise and potential of virtual currencies. This bulletin is intended to provide the basics of virtual currency: what they are and the risks to contemplate if you're considering exchanging and investing in virtual currencies.

www.dbo.ca.gov

CSBS

CSBS Taskforce on Payment Systems

- Task Force members:
  - David J. Cotney, Commissioner of Massachusetts Division of Banks
  - Jan Lynn Owen, Commissioner of California Department of Business Oversight
  - Also state regulators from:
    - Florida
    - Georgia
    - New York
    - Tennessee
    - Texas
    - Utah
    - Washington

Sustainable Banking

- Emphasis on financial institutions' environmental and social impacts.
- Over the long-term, banks that put focus on environmental, social, and health metrics, as well as the bottom line, will prove most resilient.

DEPARTMENT OF BUSINESS OVERSIGHT CALIFORNIA

Sustainable Banking

What does DBO do to sustain banking?

Supervise and regulate banks to ensure:

- Safe and sound financial institutions – keep your money safe
- Public confidence in the health of the regulated institutions
- Continued benefits of a healthy financial services system
- Implementation of policy by administering the law

Innovations in Banking

- Emerging payments technologies
- Peer-to-peer lending
- Crowdfunding

Innovation

Opportunities for You

- Focus on the communities you serve
- Smaller size enables more sustainable relationships with community
- Government-sponsored small business lending support
- Technology and innovation
- Restoring the public's trust and confidence

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Future Challenges

- Slower that expected economic growth and weak loan demand
- Rising interest-rate environment
- Regulatory overburden
- Basel III Capital Guidelines
- Succession planning

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Conclusion

- Importance of community banking
- Crucial role in providing credit to the local businesses in your community
- Most community banks are fundamentally sound and will remain so.
- We will continue to work to strengthen the economy and to ensure that our supervision and examination policies do not inadvertently impede sound lending by community banks.

DEPARTMENT OF BUSINESS OVERSIGHT
DBO
CALIFORNIA

Department of Business Oversight

Visit www.dbo.ca.gov

Sign up for our mailing list!

From: Margaret Liu <MLiu@csbs.org>
Sent: Monday, April 28, 2014 12:08 PM
To: Owen, Jan Lynn@DBO
Subject: CSBS Legislative Committee Monthly Call -- May 1 at 3:00 pm EDT

If this email does not display properly, please view our online version.

TO: CSBS LEGISLATIVE COMMITTEE

The CSBS Legislative Committee will hold its monthly call on **Thursday, May 1 at 3:00 pm EDT, 2:00 pm CDT, 1:00 pm MDT, and 12 noon PDT.**

Access Instructions:

Click here to add this to your Outlook calendar
Dial: 1-888-827-6040
Participant Passcode: REDACTED

Agenda:

1. S.2252, legislation requiring at least one Governor on the Federal Reserve Board has demonstrated experience working with or supervising community banks.

2. Housing Finance

3. CFPB Oversight Hearing

4. S. 947 Update

5. Open forum

Please do not hesitate to contact Sandy Sussman (202-407-7160, ssussman@csbs.org), Matt Lambert (202-407-7130, mlambert@csbs.org) or me if you have any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

McQuinn, Michael@DBO

From: Owen, Jan Lynn@DBO
Sent: Wednesday, April 30, 2014 12:08 PM
To: Lauren Kingry; Mary Simonds; Andy Grosmaire; Barton Aplebaum (barton.aplebaum@illinois.gov); Basil Elosta; Butler, Sarah (PPC); Charles.Cooper@dob.texas.gov; Robert Charlton; Copeland, Jim (JCopleand@scconsumer.gov); Cynthia H. Jones; Darin Domingue; David Axford (david.axford@tn.gov); Deb Bortner; DosSantos, Simone (DISB); Entringer, Robert J.; Estes, Sally; Frankie Hornick (fhornick@dbo.ca.gov); Gavin Gee (GGee@finance.idaho.gov); Grace, Raymond; Greg Gonzales (Greg.Gonzales@tn.gov); Hall, Melanie; Janell Fibikar (janell.fibikar@wi.gov); Jennifer Cooke (jennifer.cook@osbckansas.org); John Prendergast; Joy.Feigenbaum@dfs.ny.gov; Julia Winchell (julia.winchell@alaska.gov); Julie Meade (julie.meade@state.co.us); Keen TK; Laura.J.Sasaki@dcca.hawaii.gov; 'leslie.pettijohn@occc.state.tx.us'; Broudy, Louisa@DBO; Margaret Liu; Mark Kaufman; Mary Jurta; Matt Lambert; Menchaca, Francisco; MICHELLE JEANSONNE; Mike Igney; Mike Larsen (mlarsen@finance.idaho.gov); Mirrashidi, Lila@DBO; Missouri Division of Finance (joe.crider@dof.mo.gov); Olson, Chris (DOA); Partin, Kathleen@DBO; Pope, Christopher (DOB); Randy Johnson (randy.johnson@idob.state.ia.us); Romano, Christopher; rudy.aguilar@occc.state.tx.us; Ryan Walsh (rywalsh@pa.gov); Sandy Sussman; Sara Weed (sweed@nccob.gov); Schneider, Lorraine; 'scott.corscadden@banking.alabama.gov'; Simmons, Florence; sjandle@ofi.louisiana.gov; Steve Henley; Susan E. Hancock (susan.hancock@scc.virginia.gov); 'Tarpey, Mark'; Tatman David C; Tim Doyle; W. Thomas Lawrie; Will Lund (William.N.Lund@maine.gov); Winchell, Julia L (CED)
Cc: Chuck Cross
Subject: RE: LendUp Raises $50 Million To Disrupt Payday Lending

LendUp is licensed in CA under the SB 318 Pilot programs as a CFLL.

Jan Lynn Owen
Commissioner
California Department of Business Oversight
1515 K Street Suite 200
Sacramento, California 95814
916-324-9011

www.dbo.ca.gov

From: Lauren Kingry [mailto:LKingry@azdfi.gov]
Sent: Wednesday, April 30, 2014 11:32 AM
To: Mary Simonds; Andy Grosmaire; Barton Aplebaum (barton.aplebaum@illinois.gov); Basil Elosta; Butler, Sarah (PPC); Charles.Cooper@dob.texas.gov; Robert Charlton; Copeland, Jim (JCopleand@scconsumer.gov); Cynthia H. Jones; Darin Domingue; David Axford (david.axford@tn.gov); Deb Bortner; DosSantos, Simone (DISB); Entringer, Robert J.; Estes,

Sally; Frankie Hornick (fhornick@dbo.ca.gov); Gavin Gee (GGee@finance.idaho.gov); Grace, Raymond; Greg Gonzales (Greg.Gonzales@tn.gov); Hall, Melanie; Janell Fibikar (janell.fibikar@wi.gov); Jennifer Cooke (jennifer.cook@osbckansas.org); John Prendergast; Joy.Feigenbaum@dfs.ny.gov; Julia Winchell (julia.winchell@alaska.gov); Julie Meade (julie.meade@state.co.us); Keen TK; Laura.J.Sasaki@dcca.hawaii.gov; 'leslie.pettijohn@occc.state.tx.us'; Broudy, Louisa@DBO; Margaret Liu; Mark Kaufman; Mary Jurta; Matt Lambert; Menchaca, Francisco; MICHELLE JEANSONNE; Mike Igney; Mike Larsen (mlarsen@finance.idaho.gov); Mirrashidi, Lila@DBO; Missouri Division of Finance (joe.crider@dof.mo.gov); Olson, Chris (DOA); Owen, Jan Lynn@DBO; Partin, Kathleen@DBO; Pope, Christopher (DOB); Randy Johnson (randy.johnson@idob.state.ia.us); Romano, Christopher; rudy.aguilar@occc.state.tx.us; Ryan Walsh (rywalsh@pa.gov); Sandy Sussman; Sara Weed (sweed@nccob.gov); Schneider, Lorraine; 'scott.corscadden@banking.alabama.gov'; Simmons, Florence; sjandle@ofi.louisiana.gov; Steve Henley; Susan E. Hancock (susan.hancock@scc.virginia.gov); 'Tarpey, Mark'; Tatman David C; Tim Doyle; W. Thomas Lawrie; Will Lund (William.N.Lund@maine.gov); Winchell, Julia L (CED)
Cc: Chuck Cross
Subject: RE: LendUp Raises $50 Million To Disrupt Payday Lending

Mary, Not in Arizona as a licensed entity and to the best of our knowledge is not doing business here as unlicensed activity. No app pending, either.

Mr. Lauren W. Kingry
Superintendent
Arizona Department of Financial Institutions
2910 N. 44th Street
Phoenix, AZ 85018
602-771-2772

From: Mary Simonds [mailto:MSimonds@csbs.org]
Sent: Wednesday, April 30, 2014 6:55 AM
To: Andy Grosmaire; Barton Aplebaum (barton.aplebaum@illinois.gov); Basil Elosta; Butler, Sarah (PPC); Charles.Cooper@dob.texas.gov; Robert Charlton; Copeland, Jim (JCopleand@scconsumer.gov); Cynthia H. Jones; Darin Domingue; David Axford (david.axford@tn.gov); Deb Bortner; DosSantos, Simone (DISB); Entringer, Robert J.; Estes, Sally; Frankie Hornick (fhornick@dbo.ca.gov); Gavin Gee (GGee@finance.idaho.gov); Grace, Raymond; Greg Gonzales (Greg.Gonzales@tn.gov); Hall, Melanie; Janell Fibikar (janell.fibikar@wi.gov); Jennifer Cooke (jennifer.cook@osbckansas.org); John Prendergast; Joy.Feigenbaum@dfs.ny.gov; Julia Winchell (julia.winchell@alaska.gov); Julie Meade (julie.meade@state.co.us); Keen TK; Laura.J.Sasaki@dcca.hawaii.gov; Lauren Kingry; 'leslie.pettijohn@occc.state.tx.us'; Louisa Broudy (lbroudy@corp.ca.gov); Margaret Liu; Mark Kaufman; Mary Jurta; Matt Lambert; Menchaca, Francisco; MICHELLE JEANSONNE; Mike Igney; Mike Larsen (mlarsen@finance.idaho.gov); Mirrashidi, Lila@DBO; Missouri Division of Finance (joe.crider@dof.mo.gov); Olson, Chris (DOA); Owen, Jan Lynn@DBO; Partin, Kathleen@DBO; Pope, Christopher (DOB); Randy Johnson (randy.johnson@idob.state.ia.us); Romano, Christopher; rudy.aguilar@occc.state.tx.us; Ryan Walsh (rywalsh@pa.gov); Sandy Sussman; Sara Weed (sweed@nccob.gov); Schneider, Lorraine; 'scott.corscadden@banking.alabama.gov'; Simmons, Florence; sjandle@ofi.louisiana.gov; Steve Henley; Susan E. Hancock (susan.hancock@scc.virginia.gov); 'Tarpey, Mark'; Tatman David C; Tim Doyle; W. Thomas Lawrie; Will Lund (William.N.Lund@maine.gov); Winchell, Julia L (CED)
Cc: Chuck Cross
Subject: LendUp Raises $50 Million To Disrupt Payday Lending

Good Morning,

Please see the below article from TechCrunch on LendUp, a direct lender that wants to redefine payday lending to make it more fair and transparent. I'm reaching out today to see if you could let us know if LendUp is licensed in your state yet.

Please let me know if you have any questions.

Thank you,
Mary

http://techcrunch.com/2014/04/28/lendup-raises-50-million-to-disrupt-payday-lending/

Mary K. Simonds
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From:	Margaret Liu <MLiu@csbs.org>
Sent:	Friday, May 02, 2014 1:25 PM
To:	david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; khagler@dbf.state.ga.us; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; maria.filipakis@dfs.ny.gov; 'manny.flores@illinois.gov'
Cc:	Catherine Woody; Jeanette Barraza; Michael Stevens; Chuck Cross; John Ryan; Matt Lambert
Subject:	Next Call and May 16 Hearing
Attachments:	CSBS Emerging Task Force Monthly Call - May 6.ics; TX DOB Supervisory Memorandum - 1037.pdf; CSBS Payments Hearing Agenda with Speakers.docx

TO : CSBS Emerging Payments Task Force

The next task force call is scheduled for this coming Tuesday at 3:30 pm EDT, 2:30 pm DCT, 1:30 pm MDT, and 12:30 pm PDT. An Outlook Calendar Item is attached to this email.

Call Agenda:

1. Follow-up on Model Consumer Guidance
2. May 16 Hearing (agenda attached)
3. Texas Department of Banking Supervisory Guidance (attached)

As the attached agenda indicates, we will spend some time on the Tuesday call discussing the hearing. All the speakers on the attached agenda are confirmed, and we plan to post the agenda first thing Monday morning. We have asked Manny Flores, Acting Secretary of the Illinois Department of Financial and Professional Regulation and our host for the week, to join the Task Force for the hearing. I have copied Manny on this message and invited him to join this coming Tuesday's Task Force call.

If you plan to attend and have not let me know, please do so. Additionally, if you have staff who plan on attending, we ask that they register so that we have an accurate count for room seating and set-up purposes.

Please let me know if you have any questions and have a great weekend.

We look forward to seeing you in Chicago.

Margaret C. Liu
Senior Vice President and Deputy General Counsel
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1129 20th Street, NW, Suite 900
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From: Margaret Liu
Sent: Friday, April 11, 2014 10:50 AM

To: david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; khagler@dbf.state.ga.us; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; Janlynn.owen@dbo.ca.gov; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; maria.filipakis@dfs.ny.gov
Cc: Catherine Woody; Chuck Cross; Jeanette Barraza; Michael Stevens; John Ryan
Subject: CSBS Emerging Payments Task Force -- Updates

TO : Task Force Members

This message covers three items: the public hearing, the draft model consumer guidance, and the next task force call.

Public Hearing

Thank you for your feedback on the public hearing. The event will be on Friday, May 16, starting at 9 am and concluding around 1:30 pm. It will be held at the Hyatt Chicago Magnificent Mile, the same location as the SFSF. As proposed earlier, the hearing will consist of three topical panels on the following:

- Legacy Payment Systems
- Retail Payments Innovations
- Virtual Currencies

Each panel will last one hour.

We plan to announce the hearing on Monday, April 14. In advance of the announcement, please treat this information as confidential and not to be shared outside of your agencies.
Attached are talking points to assist you with any inquiries you may receive on the hearing. Additionally, all Commissioners will receive advance notification on Monday, prior to the release of the hearing notice.

A draft of the notice is attached for your information.

Consumer Guidance

Thanks to everyone for the feedback. Following up on the Task Force call, we reached out to NASAA to discuss making the guidance a joint release. NASAA would like to issue the release jointly and the attached draft reflects their comments.

Because of the announcement of the hearing on April 14, we plan to issue the Model Consumer Guidance on Monday, April 21. We will circulate a revised version of the guidance early next week.

Next Task Force Call

As discussed during the April call, the next Task Force call is scheduled for Tuesday, May 6 at 3:30 pm EDT. A calendar item is attached to this message.
To access the call:
Dial 1-888-827-6040
Passcode: 73865520 #

Additionally, we expect to schedule another call in late April to discuss the public hearing.

Thanks and please do not hesitate to contact Jeanette Barraza or myself if you have any questions.

Margaret C. Liu

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McQuinn, Michael@DBO

Subject: CSBS Emerging Task Force Monthly Call - May 6

Start: Tue 5/6/2014 12:30 PM
End: Tue 5/6/2014 1:30 PM

Recurrence: (none)

Toll Free Number: 1-888-827-6040

Participant Passcode: REDACTED

TEXAS DEPARTMENT OF BANKING

★ *Dedicated to Excellence in Texas Banking* ★

SUPERVISORY MEMORANDUM – 1037

DATE: April 3, 2014

TO: All Virtual Currency Companies Operating or Desiring to Operate in Texas

FROM: Charles G. Cooper, Banking Commissioner

SUBJECT: Regulatory Treatment of Virtual Currencies Under the Texas Money Services Act

Purpose

Virtual currencies have proliferated in recent years and, particularly with the advent of cryptocurrencies like Bitcoin, have raised novel questions in relation to money transmission and currency exchange. This supervisory memorandum outlines the policy of the Texas Department of Banking (Department) with regard to virtual currencies. This policy expresses the Department's interpretation of the Texas Money Services Act,[1] and the application of its interpretation to various activities involving virtual currencies. While the popularity of Bitcoin has sparked new discourse on the nature of money and transferability of value, this memorandum seeks only to establish the regulatory treatment of virtual currencies under existing statutory definitions.

Types of Virtual Currency

In broad terms, a virtual currency is an electronic medium of exchange typically used to purchase goods and services from certain merchants or to exchange for other currencies, either virtual or sovereign.[2] As of the date of this memorandum the Department is not aware of any virtual currency that has legal tender status in any jurisdiction, nor of any virtual currency issued by a governmental central bank. As such, virtual currencies exist outside established financial institution systems. There are many different virtual currency schemes, and it is not easy to classify all of them, but for purposes of this memorandum, they can generally be divided into two basic types: centralized and decentralized.

Centralized virtual currencies are created and issued by a specified source. They rely on an entity with some form of authority or control over the currency. Typically, the authority behind a centralized virtual currency is also the creator. Centralized virtual currencies can be further divided into subclassifications that quickly become too complex to apply a universal policy. Some can be purchased with sovereign currency, but cannot be exchanged back to sovereign currency; some can be converted back to sovereign currency; some are used only for purchase of goods and services from a closed universe of merchants, while others may have a theoretically open universe of merchants. Some centralized currencies are backed by the issuer with sovereign currency or precious metals, and therefore derive intrinsic value.

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[1] Texas Finance Code Chapter 151.

[2] In this memorandum the term sovereign currency will be used to mean government-issued currencies with legal tender status in the country of issuance. In most of the literature pertaining to virtual currency, the term fiat currency is used to refer to government-issued legal tender. Technically, fiat currency is a subset of government-issued legal tender. Fiat currency has no intrinsic value; its value is established by law. By contrast, commodity-backed currency has intrinsic value insofar as it represents a claim on a commodity such as gold or silver. Here, sovereign currency means both commodity-backed and fiat currency issued by a government and designated as legal tender.

In contrast, decentralized virtual currencies are not created or issued by a particular person or entity, have no administrator, and have no central repository. Thus far, decentralized currencies are all cryptocurrencies such as Bitcoin, Litecoin, Peercoin, Namecoin, and so on. A cryptocurrency is based on a cryptographic protocol that manages the creation of new units of the currency through a peer-to-peer network. The creation of cryptocurrency happens through a process called mining that basically involves running an application on a computer that performs proof-of-work calculations. When the computer performs a sufficient amount of these calculations, the cryptocurrency's underlying protocol essentially generates a new unit of the currency that can be delivered to the miner's wallet. Because users' wallets act as the connection points of the cryptocurrency's peer-to-peer network, transfers of cryptocurrency are made directly from wallet to wallet, without any intermediary, whereas transmissions of sovereign currencies must be made through one or more intermediaries such as a financial institution or money transmitter.

One important characteristic of cryptocurrency is its lack of intrinsic value. A unit of cryptocurrency does not represent a claim on a commodity, and is not convertible by law. And unlike fiat currencies, there is no governmental authority or central bank establishing its value through law or regulation. Its value is only what a buyer is willing to pay for it. Most cryptocurrencies are traded on third party exchange sites, where the exchange rates with sovereign currencies are determined by averaging the transactions that occur. Some experts consider cryptocurrency to be a new asset class that is neither currency nor commodity, but possessing characteristics of both, as well as characteristics of neither.

Analysis

Currency Exchange

Exchanging virtual currency for sovereign currency is not currency exchange under the Texas Finance Code. Finance Code §151.501(b)(1) defines currency for purposes of currency exchange as "the coin and paper money of the United States or any country that is designated as legal tender and circulates and is customarily used and accepted as a medium of exchange in the country of issuance." Because neither centralized virtual currencies nor cryptocurrencies are coin and paper money issued by the government of a country, they cannot be considered currencies under the statute. Therefore absent a legislative change to the statute, no currency exchange license is required in Texas to conduct any type of transaction exchanging virtual with sovereign currencies.

Money Transmission

Because factors distinguishing the various centralized virtual currencies are usually complicated and nuanced, to make money transmission licensing determinations the Department must individually analyze centralized virtual currency schemes. Accordingly, this memorandum does not offer generalized guidance on the treatment of centralized virtual currencies by the Money Services Act's money transmission provisions.

On the other hand, money transmission licensing determinations regarding transactions with cryptocurrency turn on the single question of whether cryptocurrencies should be considered "money or monetary value" under the Money Services Act. Under Finance Code §151.301, money transmission is "the receipt of money or monetary value by any means in exchange for a promise to make the money or monetary value available at a later time or different location." Although there is a great amount of discussion over whether cryptocurrencies should be considered money, for purposes of money transmission regulation in Texas the term is defined by statute. Finance Code §151.301(b)(3) provides that "'money' or 'monetary value' means currency or a claim that can be converted into currency through a financial institution, electronic payments network, or other formal or informal payment system." As already stated, a cryptocurrency is not currency as that word is defined in the Money Services Act. A unit of cryptocurrency is also not a claim.[3] It does not entitle its owner to anything, and creates no duties or obligations in a person who gives, sells, or transfers it. There is no entity that must honor the value of a cryptocurrency, or exchange any given unit of a cryptocurrency for sovereign currency. For comparison, under federal law U.S. coin and paper currency must be honored for payment of all debts, public charges, taxes, and dues, and the U.S. Treasury Department must redeem it for "lawful money."[4] But the owner of a unit of a cryptocurrency has no right or guaranteed ability to convert that unit to sovereign currency. The only way to convert a unit of cryptocurrency to sovereign currency is to find a willing buyer. Therefore cryptocurrencies as currently implemented cannot be considered money or monetary value under the Money Services Act.

Statement of Policy

Because cryptocurrency is not money under the Money Services Act, receiving it in exchange for a promise to make it available at a later time or different location is not money transmission. Consequently, absent the involvement of sovereign currency in a transaction, no money transmission can occur. However, when a cryptocurrency transaction does include sovereign currency, it may be money transmission depending on how the sovereign currency is handled. A licensing analysis will be based on the handling of the sovereign currency.

To provide further guidance, the regulatory treatment of some common types of transactions involving cryptocurrency can be determined as follows.

- Exchange of cryptocurrency for sovereign currency between two parties is not money transmission. This is essentially a sale of goods between two parties. The seller gives units of cryptocurrency to the buyer, who pays the seller directly with sovereign currency. The seller does not receive the sovereign currency in exchange for a promise to make it available at a later time or different location.

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[3] The legal definition of a claim can essentially be stated as a right enforceable by a court. *See* Black's Law Dictionary 264 (8th ed. 2004).

[4] 31 U.S.C. §5103; 12 U.S.C. §411 ("The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal Reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank.")

- Exchange of one cryptocurrency for another cryptocurrency is not money transmission. Regardless of how many parties are involved, there is no receipt of money, and therefore no money transmission occurs.
- Transfer of cryptocurrency by itself is not money transmission. Because cryptocurrency is not money or monetary value, the receipt of it in exchange for a promise to make it available at a later time or different location is not money transmission. This includes intermediaries who receive cryptocurrency for transfer to a third party, and entities who, akin to depositories, hold cryptocurrency on behalf of customers.
- Exchange of cryptocurrency for sovereign currency through a third party exchanger is generally money transmission. For example, most Bitcoin exchange sites, such as the failed Mt. Gox, facilitate exchanges by acting as an escrow-like intermediary. In a typical transaction, the buyer of cryptocurrency sends sovereign currency to the exchanger who holds the funds until it determines that the terms of the sale have been satisfied before remitting the funds to the seller. Irrespective of its handling of the cryptocurrency, the exchanger conducts money transmission by receiving the buyer's sovereign currency in exchange for a promise to make it available to the seller.
- Exchange of cryptocurrency for sovereign currency through an automated machine is usually but not always money transmission. For example, several companies have begun selling automated machines commonly called "Bitcoin ATMs" that facilitate contemporaneous exchanges of bitcoins for sovereign currency. Most such machines currently available, when operating in their default mode act as an intermediary between a buyer and seller, typically connecting through one of the established exchange sites. When a customer buys or sells bitcoins through a machine configured this way, the operator of the machine receives the buyer's sovereign currency in exchange for a promise to make it available to the seller. However it is worth noting that at least some Bitcoin ATMs can be configured to conduct transactions only between the customer and the machine's operator, with no third parties involved. If the machine never involves a third party, and only facilitates a sale or purchase of Bitcoins by the machine's operator directly with the customer, there is no money transmission because at no time is money received in exchange for a promise to make it available at a later time or different location.

A cryptocurrency business that conducts money transmission must comply with all applicable licensing provisions of Finance Code Chapter 151 and of Title 7, Texas Administrative Code, Chapter 33. In addition, several considerations should be highlighted. First, because a money transmitter conducting virtual currency transactions conducts business through the Internet, the minimum net worth requirement under Finance Code §151.307 is $500,000.[5] Be advised that the Commissioner may increase the required net worth up to a maximum of $1,000,000 based on the factors set out in §151.307(b). Second, a license holder may not include virtual currency assets in calculations for its permissible investments under Finance Code §151.309. Lastly, pursuant to Finance Code §151.203(a)(3) the Commissioner requires that license applicants who handle virtual currencies in the course of their money transmission activities must submit a current third party security audit of their relevant computer systems. Because the new technological paradigm created by cryptocurrencies has brought with it new risks for the consumer, it is incumbent on a license applicant to demonstrate that all virtual currency is secure while controlled by the applicant.

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[5] Under §151.307(a), a minimum net worth of $500,000 is required if a business operates through five or more locations. It has been the Department's policy that license holders operating through the Internet are considered to be in more than five locations. *See http://www.dob.texas.gov/forms/corp-mw01.htm#netw*

McGuffin, Matthew@DBO

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Friday, May 02, 2014 1:59 PM
To:	O'Toole, Dave@DBO
Subject:	CSBS Emerging Payments May 16 Public Hearing

If this email does not display properly, please view our online version.

TO: Commissioners and Deputies

As you know, the CSBS Emerging Payments Task force will be holding a public hearing in Chicago on May 16. We wanted to provide the membership with the final agenda.

If you or your staff are planning on attending the hearing and have not registered, please do so by going to the registration site. There is no fee to attend the public hearing, but we are asking that attendees register so that we have an accurate count for room set up purposes. Please note that registration for the hearing is separate from SFSF registration, and that SFSF registrants and not automatically registered for the May 16 hearing.

Please let me know if you have any questions and have a great weekend.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
mliu@csbs.org

202.728.5749 I 202.368.1498 (c)

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Click here if you prefer not to receive any further email from CSBS.

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Friday, May 02, 2014 1:59 PM
To:	Owen, Jan Lynn@DBO
Subject:	CSBS Emerging Payments May 16 Public Hearing

If this email does not display properly, please view our online version.

TO: Commissioners and Deputies

As you know, the CSBS Emerging Payments Task force will be holding a public hearing in Chicago on May 16. We wanted to provide the membership with the final agenda.

If you or your staff are planning on attending the hearing and have not registered, please do so by going to the registration site. There is no fee to attend the public hearing, but we are asking that attendees register so that we have an accurate count for room set up purposes. Please note that registration for the hearing is separate from SFSF registration, and that SFSF registrants and not automatically registered for the May 16 hearing.

Please let me know if you have any questions and have a great weekend.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

McQuinn, Michael@DBO

Subject:	Emerging Payments June Call
Start:	Tue 6/3/2014 12:30 PM
End:	Tue 6/3/2014 1:30 PM
Recurrence:	(none)

Toll Free Number: 1-888-827-6040

Participant Passcode: REDACTED

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Tuesday, May 06, 2014 2:07 PM
To: david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; khagler@dbf.state.ga.us; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; 'maria.filipakis@dfs.ny.gov'; 'manny.flores@illinois.gov'; Debra.Sherman (Debra.Sherman@theclearinghouse.org); rick.riccobono@dfi.wa.gov
Cc: Jeanette Barraza; Chuck Cross; Michael Stevens; John Ryan; Matt Lambert; Mary Simonds
Subject: Today's Task Force Call -- Follow-Up Items and Next Call
Attachments: Emerging Payments June Call.ics

Below is the press release that was issued yesterday announcing the speakers for the May 16 hearing. Please feel free to share with industry and other stakeholders.

Reminders related to SFSF Events:

Thursday, May 15 (all times are CDT)
7:30 am – Task Force Breakfast with FinCEN. I will let you know if there will be others attending
8:30 am – SFSF Panel on Innovation and the Future of Payments
3:00 pm – Breakout Session on Virtual Currency

Finally, we discussed holding the next call on Tuesday, June 3 at 3:30 EDT. A calendar item is attached. Please let me know if this presents a conflict.

MCL

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If this email does not display properly, please view our online version.

May 5, 2014

MEDIA RELEASE

Conference of State Bank Supervisors
1129 20th Street, NW, Ninth Floor, Washington, DC, 20036

Speakers Announced for CSBS Emerging Payments Task Force Public Hearing

Washington, D.C.—The Conference of State Bank Supervisors (CSBS) announced today panelists for the Emerging Payments Task Force hearing. The hearing, scheduled for May 16 in Chicago, will study changes in payment systems to determine the potential impact on consumer protection, state law, and bank and non-bank entities chartered or licensed by the states.

Panelists will address state bank regulators on the topics of legacy payment systems, retail payment innovations, and virtual currencies. The following panelists have been invited to speak:

Panel 1 – Legacy Payment Systems

- Chris Daniel, Partner, Paul Hastings LLP
- Jane Larimer, Executive Vice President, NACHA
- Bob Steen, Chief Executive Officer, Bridge Community Bank

Panel 2 – Retail Payments Innovations

- Jason Oxman, Chief Executive Officer, Electronic Transactions Association
- Lewis Goodwin, Chief Executive Officer, Green Dot Bank
- John Muller, Vice President of Global Payments Policy, PayPal
- Spencer White, General Manager, MNO Partnerships (AT&T), ISIS Mobile Commerce

Panel 3 – Virtual Currencies

- Bryan Krohn, Chief Financial Officer, BitPay
- Karsten Behrend, Head of Compliance, Xapo
- Megan Burton, Chief Executive Officer, CoinX
- Annemarie Tierney, EVP Legal and General Counsel, SecondMarket

The agenda for the public hearing is available here. Registration for the hearing can be found here.

# \# \#

Media Contacts:

Catherine Woody, Vice President of Media and Industry Relations, cwoody@csbs.org or 202.728.5733
Rockhelle Johnson, Senior Manager of Communications, rjohnson@csbs.org

or 202.407.7156
Matthew Longacre, Manager of Communications, mlongacre@csbs.org or 202.803.8091

The Conference of State Bank Supervisors (CSBS) is the nationwide organization of banking regulators from all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. State banking regulators supervise nearly 5,200 state-chartered financial institutions. Further, most state banking departments also regulate a variety of non-bank financial services providers, including mortgage lenders. For more than a century, CSBS has given state supervisors a national forum to coordinate supervision of their regulated entities and to develop regulatory policy. CSBS also provides training to state banking and financial regulators and represents its members before Congress and the federal financial regulatory agencies.

H. Catherine Woody
Vice President of Media and Industry Relations
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Click here if you prefer not to receive any further email from CSBS.

From: Catherine Woody <cwoody@csbs.org>
Sent: Monday, May 12, 2014 9:14 AM
To: O'Toole, Dave@DBO
Subject: CSBS Announces Emerging Payments Task Force Hearing Live Webcast

If this email does not display properly, please view our online version.

May 12, 2014

MEDIA RELEASE

Conference of State Bank Supervisors
1129 20th Street, NW, Ninth Floor, Washington, DC, 20036

CSBS Announces Emerging Payments Task Force Hearing Live Webcast

Washington, D.C. – The Conference of State Bank Supervisors (CSBS) announced today that the Emerging Payments Hearing will be available live via webcast from the CSBS website. The hearing is scheduled to begin on May 16 at 9:00 am Central (10:00 am Eastern, 8:00 am Mountain, 7:00 am Pacific).

The hearing will study changes in payment systems to determine the potential impact on consumer protection, state law, and bank and non-bank entities chartered or licensed by states. The three panels that will address state regulators will cover the topics of legacy payment systems, retail payment innovations, and virtual currencies.

The webcast will be available via the CSBS website here. The agenda for the hearing is available here.

Background Information: The CSBS Emerging payments task force was established by state bank regulators to take a comprehensive approach to studying the changing payment systems landscape, including virtual currencies. The task force will engage with a broad range of stakeholders – including fellow state regulators, federal regulators, industry participants, and other experts – to understand how new entrants and technologies affect the stability of payment systems and the broader financial marketplace and to develop ideas for connecting the emerging payments landscape to the financial regulatory fabric.

More information about the Emerging Payments Task Force is available here.

# # #

Media Contacts:
Catherine Woody, Vice President of Media and Industry Relations, cwoody@csbs.org or 202.728.5733
Rockhelle Johnson, Senior Manager of Communications, rjohnson@csbs.org or 202.407.7156
Matthew Longacre, Manager of Communications, mlongacre@csbs.org or 202.803.8091

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McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Wednesday, May 14, 2014 8:13 AM
To: david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; khagler@dbf.state.ga.us; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; 'maria.filipakis@dfs.ny.gov'; 'manny.flores@illinois.gov'; rick.riccobono@dfi.wa.gov; 'dana.syracuse@dfs.ny.gov'
Cc: Jeanette Barraza; Chuck Cross; Michael Stevens; John Ryan; Matt Lambert; Mary Simonds; Tonita Allers; Sebastien Monnet
Subject: CSBS Emerging Payments Task Force -- Hearing Prep In-Person Meeting at 4 pm on Thursday

TO : Task Force Members

The task force will hold a prep meeting this Thursday, May 15 at 4:00 pm in the Erie Room on the Third Floor of the Hyatt Magnificent Mile. This meeting will be for task force members and CSBS staff to walk through the public hearing and to discuss any questions task force members might have about Friday morning's hearing.

Additionally, I wanted to remind the task force about the Task Force breakfast meeting Thursday morning, May 15 at 7:30 am with FinCEN (Alan Cox) and Federal Reserve staff (Connie Theien, Vice President, Financial Services Industry Relations, Federal Reserve Financial Services; and Brian Mantel, Vice President, Research and Market Development, Payment Systems, Federal Reserve Bank of Chicago). The breakfast will be in the Erie Room on the third Floor.

Finally, some reminders about SFSF sessions of interest – also on Thursday, May 15:

8:30 am – SFSF Panel on Innovation and the Future of Payments
3:00 pm – Breakout Session on Virtual Currency

Please let me know if you have any questions.

MCL

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May 5, 2014

MEDIA RELEASE

Conference of State Bank Supervisors
1129 20th Street, NW, Ninth Floor, Washington, DC, 20036

Speakers Announced for CSBS Emerging Payments Task Force Public Hearing

Washington, D.C.—The Conference of State Bank Supervisors (CSBS) announced today panelists for the Emerging Payments Task Force hearing. The hearing, scheduled for May 16 in Chicago, will study changes in payment systems to determine the potential impact on consumer protection, state law, and bank and non-bank entities chartered or licensed by the states.

Panelists will address state bank regulators on the topics of legacy payment systems, retail payment innovations, and virtual currencies. The following panelists have been invited to speak:

Panel 1 – Legacy Payment Systems

- Chris Daniel, Partner, Paul Hastings LLP
- Jane Larimer, Executive Vice President, NACHA
- Bob Steen, Chief Executive Officer, Bridge Community Bank

Panel 2 – Retail Payments Innovations

- Jason Oxman, Chief Executive Officer, Electronic Transactions Association
- Lewis Goodwin, Chief Executive Officer, Green Dot Bank
- John Muller, Vice President of Global Payments Policy, PayPal
- Spencer White, General Manager, MNO Partnerships (AT&T), ISIS Mobile Commerce

Panel 3 – Virtual Currencies

- Bryan Krohn, Chief Financial Officer, BitPay
- Karsten Behrend, Head of Compliance, Xapo
- Megan Burton, Chief Executive Officer, CoinX
- Annemarie Tierney, EVP Legal and General Counsel, SecondMarket

The agenda for the public hearing is available here. Registration for the hearing can be found here.

# # #

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Rockhelle Johnson, Senior Manager of Communications, rjohnson@csbs.org or 202.407.7156
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Cc:	Jeanette Barraza; Chuck Cross; Michael Stevens; John Ryan; Matt Lambert; Mary Simonds; Tonita Allers; Sebastien Monnet
Subject:	RE: CSBS Emerging Payments Task Force -- Hearing Prep In-Person Meeting at 4 pm CDT on Thursday

A few additional updates and clarifications –

The Thursday in person meeting is 4 pm CDT in Chicago. Some of you may have received calendar invitations that showed 5 pm – that is probably because Outlook automatically adjusts for your current time zone.

We sent out (under Matt Lambert's name) a soft copy of the briefing materials, including any speaker statements that we had received by midday Monday. We will have hard copies of the briefing books available for you in Chicago. These books will include some additional speaker materials received after midday Monday.

Please do not hesitate to contact me if you have questions.

MCL

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May 5, 2014

MEDIA RELEASE

Conference of State Bank Supervisors
1129 20th Street, NW, Ninth Floor, Washington, DC, 20036

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Panel 3 – Virtual Currencies

- Bryan Krohn, Chief Financial Officer, BitPay
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- Megan Burton, Chief Executive Officer, CoinX
- Annemarie Tierney, EVP Legal and General Counsel, SecondMarket

The agenda for the public hearing is available here. Registration for the hearing can be found here.

# \# \#

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Cc: Chuck Cross; Jeanette Barraza; Matt Lambert; John Ryan; Michael Stevens
Subject: Bitcoin Foundation Op-Ed -- Mentions CSBS and Payments Task Force

TO : Task Force Members

I wanted to make sure that you saw the op-ed in today's Banker by the Bitcoin Foundation's policy counsel.

Consumer Protection in the Bitcoin Era (CSBS, Emerging Payments Task Force referenced)
American Banker, May 14, 2014
By Jim Harper

A common trope about Bitcoin is that it is "unregulated." That half-truth stirs doubts about the digital financial future. But Bitcoin is like digital cash — yes, it is unregulated in itself, but it is fully regulated in its important uses. Consumer protection will be different in the Bitcoin era, though, and with the **Conference of State Bank Supervisors' Emerging Payments Task Force** meeting in Chicago on Friday, regulators should be aware that the thoughtful and deft will have a role in shaping the future. Others will not.

The short-term prognosis for consumer protection is fairly clear: Bitcoin-based financial services are regulated just as non-Bitcoin services are. Special regulation of this new payment technology would violate technological neutrality. But that does not mean Bitcoin businesses should get a free pass. Under existing legislation and common duties, they owe consumers care when they handle valuable digital assets. Government agencies around the world are nesting Bitcoin into existing legal and regulatory regimes with decent success.

On the longer horizon, consumer protections will change so that the public can enjoy the benefits of Bitcoin while minimizing the risks. To see how, let's look at the entire field of consumer protection and how it works, then look at how Bitcoin-based services may change things.

Consumer protection is not only the small collection of laws and agencies that fall into the "consumer protection" category. It's a wide array of social systems that help ordinary people get what they want out of commercial interactions. Our consumer protection systems produce more intense oversight as commercial relations become more complicated and consequential.

Start with the very simplest transaction. Nearly all consumer protection is produced by direct consumer oversight. A person purchasing a bottle of water at a music festival knows when the transaction has concluded successfully. In billions of financial transactions every day, direct observation of the exchange and the product provides the bulk of the consumer protection that people need.

When the successful results of transactions aren't going to be immediately obvious, reputation and trust provide another layer of consumer protection. Businesses seek a good reputation hoping to win repeat business, and they do this by providing suitably high-quality goods and honest services. When they don't, consumers can undercut businesses' reputations more effectively than ever thanks to Internet-based services (think Yelp).

Where oversight and trust have failed, there is after-the-fact law enforcement. If one of the parties fails to deliver, if there is embezzlement, or if a transaction was induced by fraud, civil and criminal law step in to make consumers whole and to punish wrongdoers. Of course, these mechanisms have their greatest influence upstream, as a deterrent. They threaten high costs to businesses that do wrong by consumers, making honest, high-quality service the path of least resistance.

If the threat of penalties after the fact is insufficient, then formal consumer protection regulation may be called for. It can take many forms: registration, bonding, command over products and prices, and even ongoing oversight of business operations. Government regulation provides sophisticated commercial oversight assuming consumers cannot or will not oversee things for themselves.

At least two developments in the Bitcoin world may undercut that assumption. They suggest how consumer protection may differ in the future.

One is cryptographic proof of reserves. In the wake of losses suffered at the hands of early Bitcoin businesses, some of the newer, more responsible companies are delivering public audits of their assets. The process is complicated, but Bitcoin's cryptography-based public ledger allows an organization to prove control of Bitcoin assets without revealing private information about customers or account holders.

Multi-signature transactions are a second innovation that may remake consumer protection. "Multisig" allows any combination of consumer and business entities to exercise control over a Bitcoin-based asset. Consumers can have greater control over their "programmable" money even while it is held by a financial services provider.

These innovations, and others to come, will tend to make consumer oversight of Bitcoin businesses easier — and government oversight a less important part of the mix. Consumers will be better positioned to do their own monitoring and, in the best case, to enjoy cryptographic proof that they are being properly served.

Another current suggests that regulators should anticipate this trend and get ahead of it by treading lightly. Bitcoin is a worldwide protocol: Service providers anywhere can reach customers everywhere. Governments that don't provide confidence-building consumer protection that is cost-effective will push Bitcoin businesses to the jurisdictions that do.

By strengthening direct consumer oversight, Bitcoin may shift consumer protection somewhat from the world of law and regulation to the more dynamic world of reputation and trust. And in the best cases, Bitcoin businesses will prove the fulfillment of their services cryptographically. It's easy to overstate, but a fascinating subject for the **Conference of State Bank Supervisors** to consider as it examines digital currency at the payments task force hearing (and at its supervisory forum) this week: consumer protection provided by math rather than law.

Jim Harper is the global policy counsel at the Bitcoin Foundation

McGuffin, Matthew@DBO

From: Catherine Woody <cwoody@csbs.org>
Sent: Friday, May 16, 2014 12:05 PM
To: O'Toole, Dave@DBO
Subject: FYI: CSBS Public Hearing Addresses Challenges and Opportunities Associated with Emerging Payments

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May 16, 2014

To Commissioners, Deputies, and PIOs:

CSBS will be releasing a press release today concerning the contents of the Emerging Payments Task Force Public Hearing that occurred this morning. The release contains a brief summary of the panelists in each hearing, as well as some highlights of what they discussed.

The press release is available for review here. If you have any questions or comments, please contact Catherine Woody (cwoody@csbs.org or 202-285-3289) or Mike Stevens (mstevens@csbs.org or 703-989-4257).

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United States Senate
COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS
WASHINGTON, DC 20510-6075
May 19, 2014

The Honorable Mary Jo White
The Honorable Jacob J. Lew
The Honorable Mark P. Wetjen
The Honorable Thomas J. Curry
The Honorable Martin J. Gruenberg
The Honorable Janet L. Yellen

We write to you regarding recent developments in the use of virtual currencies and their interaction with the global payment system. The number of virtual currencies has increased substantially over the past few years: there are now more than one hundred virtual currencies with a market cap of more than $7 billion. The largest and most well-known virtual currency is Bitcoin, with a total market value of approximately $5.5 billion.

Many proponents of virtual currencies have pointed to their potential to minimize costs of domestic and international payments for consumers and businesses, as well as achieving faster and more efficient clearing and settlement than traditional payment systems. Others have pointed to a variety of other perceived benefits, ranging from increased privacy and anonymity in making payments to a safe method of storing wealth for the underbanked in developing countries. However, recent experiences with Bitcoin have raised concerns with respect to its dramatic price fluctuations, susceptibility to cyber theft, and potential for use by criminals to launder money or traffic in black market goods and services.

Reports indicate the creation of various new products and services to help consumers use or invest in virtual currencies. Multiple firms have created "Bitcoin ATMs," including one exhibited on Capitol Hill, where consumers could exchange dollars to bitcoin and back. We have also seen the development of "Bitcoin debit cards," including one that reportedly will work with up to 90% of ATMs in the United States.

The Banking Committee has held several hearings on regulatory oversight of financial stability and data security, including the security of payment systems. As data breaches at major retailers have shown, clearing and settlement of retail payments play an important role in the lives of millions of Americans. Several government agencies, such as the Internal Revenue Service, the Federal Election Commission, and the Department of Justice, have weighed in on virtual currency issues, as well as the Federal Financial Institutions Examination Council and the Financial Crimes Enforcement Network. There is considerable debate about how Bitcoin transactions and users should be characterized within the financial system.

With these facts in mind, please answer the following questions: what is your perspective on how virtual currencies fit within the U.S. banking system? How do they fit within the U.S. payment processing system and the U.S. trading markets? Attorney General Holder recently commented that the Department of Justice is "working with financial regulators to account for this emerging technology." What role, if any, has your agency played in working with federal, state, and international law enforcement agencies? What are your expectations of your supervised entities for Bank Secrecy Act compliance with regard to virtual currencies? Additionally, what is your perspective on how virtual currencies fit or should fit within the existing regulatory framework? We would be interested to hear whether your agency has jurisdiction to supervise or regulate virtual currencies, and what actions, if any, your agency has taken or plans to take in this area. Finally, please share any additional comments on how best to ensure a fair, competitive, safe market for virtual currencies.

As Chairman and Ranking Member of the Senate Committee on Banking, Housing, and Urban Affairs, we believe it is vital that the financial regulators coordinate when considering virtual currency issues, especially if Bitcoin and other virtual currencies become more widely adopted by consumers and small businesses.

Thank you for your attention to this matter.

Sincerely,

Tim Johnson

Tim Johnson, Chairman
Committee on Banking, Housing,
and Urban Affairs

Mike Crapo

Mike Crapo, Ranking Member
Committee on Banking, Housing,
and Urban affairs

McQuinn, Michael@DBO

Subject: Emerging Payments June Call

Start: Wed 6/4/2014 12:30 PM
End: Wed 6/4/2014 1:30 PM

Recurrence: (none)

Toll Free Number: 1-888-827-6040

Participant Passcode: REDACTED

From: Margaret Liu <MLiu@csbs.org>
Sent: Tuesday, May 27, 2014 10:22 AM
To: david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; khagler@dbf.state.ga.us; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; Derek Schultz; maria.filipakis@dfs.ny.gov; Deb Bortner; 'rick.riccobono@dfi.wa.gov'; 'dana.syracuse@dfs.ny.gov'
Cc: Michael Stevens; John Ryan; Buz Gorman; Chuck Cross; Jeanette Barraza; Matt Lambert; Natalie McGarry; Mary Simonds; Nathan Ross; Daniel Schwartz
Subject: CSBS Emerging Payments Task Force -- Date Change for June Call and Updates
Attachments: Emerging Payments June Call.ics; Johnson and Crapo Virtual Currency Letter.pdf

TO : CSBS Emerging Payments Task Force

Thanks to all of your efforts in making the May 16 hearing a success. We appreciated everyone's engagement and support. We are still working on getting the webcast uploaded onto the csbs website and getting a written transcript prepared.

The Task Force's next call was scheduled for next Tuesday, June 3 at 3:30 pm EDT. A few task force members have a conflict and we would like to reschedule for the following day at the same time: Wednesday, June 4 at 3:30 pm EDT. Please let me know if you will be able to make the re-scheduled call. An updated calendar item is attached to this email.

Separately, early last week, the Chairman and the Ranking Member of the Senate Banking Committee sent a letter to the federal banking agencies on virtual currencies. A copy of that letter is attached and we will have the opportunity to discuss the letter during the next task force call.

We look forward to next week's call and please do not hesitate to contact me in the meantime.

MCL

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McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Friday, May 30, 2014 12:08 PM
To: Owen, Jan Lynn@DBO
Subject: CSBS Legislative Committee Monthly Call -- Thursday, June 5 at 3:00 pm EDT

If this email does not display properly, please view our online version.

TO: CSBS LEGISLATIVE COMMITTEE

The CSBS Legislative Committee will hold its monthly call on **Thursday, June 5 at 3:00 pm EDT, 2:00 pm CDT, 1:00 pm MDT, and 12 noon PDT.**

Access Instructions:

Click here to add this to your Outlook calendar
Dial: 1-888-827-6040
Participant Passcode: REDACTED

Agenda:

1. Housing Finance Reform

2. Community Banking Legislation

3. Reputational Risk (Attached is a letter House Financial Services Chairman Jeb Hensarling (R-TX) sent federal regulators expressing concerns about regulators' approached to reputational risk)

4. Virtual Currency (Attached is a letter Senate Banking Chairman Tim Johnson (D-SD) and Ranking Member Mike Crapo (R-ID) sent federal regulators)

5. SAFE Act Updates

    A. Privilege and Confidentiality (S.947/H.R. 4626)

    B. Other SAFE Act proposals

6. CSBS Policy Process (Attached is a document explaining the policy

development process as adopted by the CSBS Board).

7. Open Forum

Please do not hesitate to contact Sandy Sussman (202-407-7160, ssussman@csbs.org), Matt Lambert (202-407-7130, mlambert@csbs.org) or me if you have any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

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Cc: Michael Stevens; John Ryan; Buz Gorman; Chuck Cross; Jeanette Barraza; Matt Lambert; Natalie McGarry; Mary Simonds; Nathan Ross; Daniel Schwartz
Subject: CSBS Emerging Payments Task Force -- Call Today
Attachments: Emerging Payments June Call.ics

TO : CSBS Emerging Payments Task Force

Just a brief reminder about today's call at 3:30 pm EDT. To access the call, dial 1-888-827-6040; code [redacted] Outlook calendar item attached.

Agenda:

1. Public hearing follow-ups and debrief.
2. Model state regulatory framework.
3. Additional outreach:
    a. Meetings with federal agencies.
        i. FinCEN
        ii. CFPB
        iii. Federal Reserve Presidents' Payments Group
        iv. FDIC and NCUA
    b. Outreach with other stakeholders.
        i. Possible meeting with industry during CSBS District V meeting.
        ii. Future public events.

We look forward to speaking with you this afternoon.

MCL

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McQuinn, Michael@DBO

Subject: Emerging Payments June Call

Start: Wed 6/4/2014 12:30 PM
End: Wed 6/4/2014 1:30 PM

Recurrence: (none)

Toll Free Number: 1-888-827-6040

Participant Passcode: REDACTED

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Friday, June 06, 2014 1:28 PM
To:	david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; stephanie.korkor@dfs.ny.gov; khagler@dbf.state.ga.us; deb.bortner@dfi.wa.gov; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; rick.riccobono@dfi.wa.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; Derek Schultz; maria.filipakis@dfs.ny.gov; Dana.syracuse@dfs.ny.gov; 'Daniel.Wood@dob.texas.gov'; Rumberger, Jennifer@DBO
Cc:	Michael Stevens; John Ryan; Buz Gorman; Chuck Cross; Jeanette Barraza; Margaret Liu; Matt Lambert; Natalie McGarry; Mary Simonds
Subject:	CSBS Emerging Payments Task Force -- Updates
Attachments:	Federal Reserve Payments Town Hall Press Release May 2014.pdf

TO : CSBS Emerging Payments Task Force

A few brief follow-ups from this week's meeting:

1. Next Task Force Call – Tentatively scheduled for Wednesday, July 2 at 3:30 pm EDT. Please let me know if you will be available for the call.
2. Federal Reserve Town Halls on Payments – Attached is the press release with all of the dates and locations of the upcoming town halls. We will also share this more broadly with the entire membership. If you or your staff are interested in attending and encounter any problems in registering, please let us know. We have a point of contact at the Minneapolis Fed who can assist you.
3. Date and Time for Call/Webinar with FinCEN – We have identified a few possible dates and times in the coming weeks: Friday, June 13 at 12 noon EDT, and Tuesday, June 17 at 1:00 pm EDT or 2:00 pm EDT. Please indicate your availability on the Doodle poll at this link http://doodle.com/7gx7p4drzqwmtei7
4. Payments Updates – Please provide us with any feedback on the update that we sent out earlier this week.

Thanks and have a great weekend.

MCL

Margaret C. Liu
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Financial Services Policy Committee

A Committee of the Conference of Presidents Federal Reserve System

David Fettig
FSPC Media Representative
(612) 204-5274
mailto:david.fettig@mpls.frb.org

For release: May 21, 2014

Federal Reserve Banks to Host Town Halls on Improving the U.S. Payment System

Minneapolis, MN, May 21, 2014 — The Federal Reserve Banks encourage payment industry stakeholders to register for one of six public "Payment System Improvement Town Halls" hosted at Reserve Banks across the country in June. The Town Halls are open to the public and will feature leaders from the Federal Reserve Banks facilitating discussion on potential strategies for addressing gaps and opportunities in the U.S. payment system, including speed, security, B2B, settlement, international and more.

Last fall, Federal Reserve Banks posed a number of ideas for industry feedback via a "Payment System Improvement – Public Consultation Paper" as input to a future roadmap for improving U.S. payment system speed, security and efficiency from end to end. Reserve Banks also conducted research efforts to inform the roadmap and are now seeking feedback on the learnings, as well as potential solutions for improvement. Industry participants can use the Town Halls as an opportunity to weigh in on the strategies and solutions under consideration for the Reserve Banks' payment system improvement roadmap, which will be shared in a paper this fall.

June 16	12:30 - 4:30 ET	Federal Reserve Bank of New York
June 17	12:30 – 4:30 CT	Federal Reserve Bank of Chicago
June 18	1:00 – 5:00 ET	Federal Reserve Bank of Atlanta
June 19	9:00 – 1:00 PT	Federal Reserve Bank of San Francisco
June 20	12:30 – 4:30 CT	Federal Reserve Bank of Dallas
June 23	1:00 – 5:00 CT	Federal Reserve Bank of St. Louis

Advance registration is required. Interested industry stakeholders are invited to learn more and register for one of these Town Halls at **FedPaymentsImprovement.org**.

"We encourage all interested parties to attend these Town Hall meetings," said Narayana Kocherlakota, president of the Federal Reserve Bank of Minneapolis and chair of the Financial Services Policy Committee (FSPC). "This type of dialogue is important as the entire industry works to improve the payment system."

* * *

Financial Services Policy Committee

A Committee of the Conference of Presidents Federal Reserve System

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The FSPC is responsible for the overall direction of financial services and related support functions for the Federal Reserve Banks, as well as for providing Federal Reserve leadership in dealing with the evolving U.S. payment system. The FSPC is composed of three Reserve Bank presidents and two Reserve Bank first vice presidents.

Financial Services Policy Committee

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MEDIA PROTOCOL

Guidelines for media participation

- Media can attend the town hall and use content presented as background info only
- Media participants must register to attend Town Hall sessions and select the Media segment for registration
- Media may not ask questions or quote anything/anyone from the session
- Federal Reserve Banks will have a media session after each Town Hall where media will have an opportunity to ask questions of Reserve Bank representatives
- Media can follow up directly with participants as desired to discuss interviews/quoting of them.

From: Margaret Liu <MLiu@csbs.org>
Sent: Tuesday, June 10, 2014 8:16 AM
To: david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; stephanie.korkor@dfs.ny.gov; khagler@dbf.state.ga.us; deb.bortner@dfi.wa.gov; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; rick.riccobono@dfi.wa.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; maria.filipakis@dfs.ny.gov; Dana.syracuse@dfs.ny.gov
Cc: Derek Schultz; Michael Stevens; John Ryan; Buz Gorman; Chuck Cross; Jeanette Barraza; Margaret Liu; Matt Lambert; Natalie McGarry; Mary Simonds
Subject: CSBS Emerging Payments Task Force Call with FinCEN -- Response Requested

TO : CSBS EMERGING PAYMENTS TASK FORCE

We are looking at a few dates and times for the conference call with FinCEN:

- Friday, June 13 at 12 noon EDT
- Tuesday, June 17 at 1:00 pm EDT
- Tuesday, June 17 at 2:00 pm EDT

Please either complete the poll at http://doodle.com/7gx7p4drzqwmtei7 or otherwise advise as to your availability.

Thanks.

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From:	Owen, Jan Lynn@DBO
Sent:	Tuesday, June 10, 2014 8:26 AM
To:	'Margaret Liu'; 'david.cotney@state.ma.us'; 'greg.gonzales@tn.gov'; 'eleary@utah.gov'; 'scott.jarvis@dfi.wa.gov'; 'stephanie.korkor@dfs.ny.gov'; 'khagler@dbf.state.ga.us'; 'deb.bortner@dfi.wa.gov'; 'stephen.dunn@state.ma.us'; 'charles.cooper@dob.texas.gov'; 'benjamin.lawsky@dfs.ny.gov'; 'rick.riccobono@dfi.wa.gov'; 'drew.breakspear@flofr.com'; 'markpeterson@utah.gov'; 'nicole.jacoby@dfs.ny.gov'; 'Amy.mceachin@flofr.com'; 'maria.filipakis@dfs.ny.gov'; 'Dana.syracuse@dfs.ny.gov'
Cc:	'Derek Schultz'; 'Michael Stevens'; 'John Ryan'; 'Buz Gorman'; 'Chuck Cross'; 'Jeanette Barraza'; 'Matt Lambert'; 'Natalie McGarry'; 'Mary Simonds'; Nishikawa, Marilyn@DBO
Subject:	RE: CSBS Emerging Payments Task Force Call with FinCEN -- Response Requested

Any of those dates and times work for me. Thank you. Jan

Jan Lynn Owen
Commissioner
Department of Business Oversight
1515 K Street Suite 200
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From: Margaret Liu [mailto:MLiu@csbs.org]
Sent: Tuesday, June 10, 2014 8:16 AM
To: david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; stephanie.korkor@dfs.ny.gov; khagler@dbf.state.ga.us; deb.bortner@dfi.wa.gov; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; rick.riccobono@dfi.wa.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; maria.filipakis@dfs.ny.gov; Dana.syracuse@dfs.ny.gov
Cc: Derek Schultz; Michael Stevens; John Ryan; Buz Gorman; Chuck Cross; Jeanette Barraza; Margaret Liu; Matt Lambert; Natalie McGarry; Mary Simonds
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Please either complete the poll at http://doodle.com/7gx7p4drzqwmtei7 or otherwise advise as to your availability.

Thanks.

Margaret C. Liu

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From: Catherine Woody <cwoody@csbs.org>
Sent: Tuesday, June 10, 2014 8:36 AM
To: O'Toole, Dave@DBO
Subject: Emerging Payments Task Force Hearing Recordings and Transcript Now Available

If this email does not display properly, please view our online version.

June 10, 2014

To Commissioners and Deputies:

The recordings and transcript from the May 16th Emerging Payments Task Force Public Hearing are now available on the CSBS website. The three panels consisted of various industry experts who spoke on the topics of Legacy Payment Systems, Retail Payments Innovations, and Virtual Currencies.

The recording is available as the full hearing or separated into individual panels. You can find the recordings here.

The transcript is available with timestamps based on the full hearing video and without timestamps. The transcript with timestamps is available here, and the transcript without timestamps is available here.

If you have any questions or comments regarding the videos and transcript, please contact Catherine Woody (cwoody@csbs.org or 202-728-5733), Rockhelle Johnson (rjohnson@csbs.org or 202-407-7156), or Matt Longacre (mlongacre@csbs.org or 202-803-8091).

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Click here if you prefer not to receive any further email from CSBS.

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From: Margaret Liu <MLiu@csbs.org>
Sent: Wednesday, June 11, 2014 2:47 PM
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To: sara.cabral@dbr.ri.gov; jacqueline.mccormack@dfs.ny.gov; tsmull@azdfi.gov; john.mcdonald@lgo-vi.gov; martin.cofsky@dfs.ny.gov; christopher.pope@state.ma.us; carmen.gonzalez@dfs.ny.gov; mayte.rivera@state.ma.us; bovenj@michigan.gov; moorej5@michigan.gov; ROBERT.HAYES@FLOFR.COM; keisha.whitehallwolfe@maryland.gov; joseph.torti@dbr.ri.gov; kevpyle@pa.gov; rdoane@pa.gov; bcharlton@azdfi.gov; ingrid.white@banking.state.nh.us; aantov@sml.texas.gov; tbay@utah.gov; psmith@sml.texas.gov; christopher.weaver@dc.gov; lallen@wvdob.org; misty.brown@dobi.state.nj.us; jill.reis@dbr.ri.gov; alexis.leahy@state.ma.us; jacob.p.mundaden@state.or.us; ray.allen@dfi.wisconsin.gov; browns25@michigan.gov; jeremy.smith@flofr.com; christopher.moya@state.nm.us; rick.riccobono@dfi.wa.gov; patrick.mullen@dobi.state.nj.us; thomas.glassic@dc.gov; BFears@dbf.state.ga.us; margaret.schruender@dc.gov; sandra.clarke@state.ma.us; Greg.Hila@flofr.com; joy.feigenbaum@dfs.ny.gov; streflingb@michigan.gov; james.wrynn@dfs.ny.gov; Mike.Johns@flofr.com; robert.niemi@com.state.oh.us; dawn.hall@dobi.state.nj.us; tamara.berardo@dobi.state.nj.us; brian.light@state.or.us; ruth.adams@dfs.ny.gov; cjones@dllr.state.md.us; Randy.Herndon@flofr.com; Sarah.Butler@KY.gov; n.michael.casparian@dfs.ny.gov; avega@ocif.gobierno.pr; shane.deal@state.mn.us; jennifer.cook@osbckansas.org; Jean.Walsh@dfs.ny.gov; nicole.jacoby@dfs.ny.gov; joe.mulberry@wyo.gov; O'Toole, Dave@DBO; Mirrashidi, Lila@DBO; merrily.gerrish@state.ma.us; robert.donovan@dfs.ny.gov; georgia.maxwell@wisconsin.gov; gcooley@dllr.state.md.us; stephen.schelver@dbcf.ms.gov; Barry.Gilman@flofr.com; hilln1@michigan.gov; James Cooper; Kyle Thomas
Cc: Sandy Sussman; Matt Lambert; Natalie McGarry
Subject: CSBS Update: Rep Eric Cantor (R-VA) to Step Down as Majority Leader

TO : COMMISSIONERS AND DEPUTIES

After unexpectedly losing his primary last night, House Majority Leader Eric Cantor (R-VA) announced this afternoon he is stepping down as Majority Leader effective July 31. There is much speculation over who may succeed the Majority Leader including, but not limited to, Jeb Hensarling (R-TX), the current Chairman of the Financial Services Committee, Majority Whip Kevin McCarthy (R-CA), Rules Committee Chairman Pete Sessions (R-TX), and Reps. Peter Roskam (R-IL), Steve Scalise (R-LA), and Lynn Jenkins (R-KS).

House Republicans have scheduled the election for Majority Leader for June 19. If Hensarling – who has been supportive of several CSBS priorities, including the SAFE Act fix and the rural petition bill -- is elected as the next Majority Leader, House Republicans would then need to choose his successor as Chairman of the Financial Services Committee. While Committee seniority is a key factor, it is not the only consideration. At this very early stage, observers have mentioned Randy Neugebauer (R-TX), Scott Garrett (R-NJ), and Patrick McHenry (R-NC) as possible Members with interest in chairing the Committee.

If you have any questions, please contact Sandy Sussman (ssussman@csbs.org), Natalie McGarry (nmcgarry@csbs.org), or me.

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McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Thursday, June 12, 2014 12:30 PM
To: Owen, Jan Lynn@DBO
Subject: CSBS Update: Senate Confirms Fed Nominees

If this email does not display properly, please view our online version.

TO: COMMISSIONERS AND DEPUTIES

Today, the U.S. Senate confirmed the nominations of the Honorable Jerome Powell (by a vote of 67-24) and the Honorable Lael Brainard (by a vote of 61-31) to serve as Members of the Federal Reserve Board of Governors. The Senate also confirmed by a vote of 63-24 Dr. Stanley Fischer's appointment to serve as Vice Chair of the Board. Ms. Brainard will join Jerome Powell, who will be serving a new term, Janet Yellen, Chairman of the Board, Daniel Tarullo, and Stanley Fischer, Vice Chair, as Members of the Board.

Today's vote leaves two vacancies on the Board. As you know, the Board continues to lack any Members either with experience as a supervisor of community banks or with other community banking experience. CSBS has been advocating that there should be at least one Governor with this experience to help ensure the Federal Reserve better fulfills its supervisory and regulatory responsibilities and that its actions are tailored to the community banking business model. CSBS supports S. 2252, a bi-partisan bill sponsored by Senators David Vitter (R-LA) and Heidi Heitkamp (D-ND) to ensure at least one Governor on the Board has demonstrated experience working with or supervising community banks.

Please contact Sandy Sussman (ssussman@csbs.org) or me for more information.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

From:	Margaret Liu <MLiu@csbs.org>
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To:	david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; stephanie.korkor@dfs.ny.gov; khagler@dbf.state.ga.us; deb.bortner@dfi.wa.gov; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; rick.riccobono@dfi.wa.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; Derek Schultz; maria.filipakis@dfs.ny.gov; Dana.syracuse@dfs.ny.gov; Michael Stevens; John Ryan; Buz Gorman; Chuck Cross; Jeanette Barraza; Margaret Liu; Matt Lambert; Natalie McGarry; 'dana.syracuse@dfs.ny.gov'
Subject:	Conference Call with FinCEN -- still TBD

TO : EMERGING PAYMENTS TASK FORCE

We have not been able to coordinate the call with FinCEN for any of the proposed times – which included 1 pm EDT or 2 pm EDT tomorrow, Tuesday, June 17. We will work on a new set of proposed dates and get those out to the task force ASAP.

Sorry for the inconvenience.

MCL

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McQuinn, Michael@DBO

Subject: CSBS Emerging Payments TF - July Call

Start: Wed 7/2/2014 12:30 PM
End: Wed 7/2/2014 1:30 PM

Recurrence: (none)

Toll Free Number: 1-888-827-6040

Participant Passcode: REDACTED

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Friday, June 20, 2014 3:00 PM
To: david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; stephanie.korkor@dfs.ny.gov; khagler@dbf.state.ga.us; Rumberger, Jennifer@DBO; deb.bortner@dfi.wa.gov; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; rick.riccobono@dfi.wa.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; Derek Schultz; maria.filipakis@dfs.ny.gov; Dana.syracuse@dfs.ny.gov; Nishikawa, Marilyn@DBO; 'deb.bortner@dfi.wa.gov'
Cc: Michael Stevens; Chuck Cross; Jeanette Barraza; John Ryan; Tonita Allers; Matt Lambert
Subject: CSBS Emerging Payments Task Force -- Next Call and Possible Meeting in San Francisco on July 24
Attachments: CSBS Emerging Payments TF - July Call.ics

To : Task Force Members

Reminder that the next call will be on Wednesday, July 2 at 3:30 pm EDT. An Outlook Calendar item is attached.

Separately, following up on the discussion during the most recent call, we have been working on a possible meeting in San Francisco on the heels of the District V meeting. The idea was to take advantage of the fact that several companies are based in the bay area and that we have a handful of TF members who are in District V.

The District V meeting will end on Thursday July 24 at 12pm in San Francisco, California. We are proposing two 90-minute meetings with stakeholders for the afternoon of the 24th, one starting at 1:30 pm PDT and one starting at 3:30 pm PDT. These would be private meetings, with no public component to them.

One meeting would discuss current payment models and how banks and non-banks are adapting for new products and services. The proposed participants would include:

- REDACTED

The other meeting would provide a discussion with new entrants into the financial industry and the products they are introducing to the public. The proposed participants would be:

- REDACTED

We have had preliminary conversations with a few of these companies to explore a possible meeting, and, no surprise, they welcome the opportunity. If this looks like something that you think the task force should do, we will get the word out to the task force and start pulling it together.

Please let me and Jeanette know if you will attend this meeting and, as always, do not hesitate to contact us with any questions.

MCL

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McQuinn, Michael@DBO

From: Owen, Jan Lynn@DBO
Sent: Friday, June 20, 2014 5:34 PM
To: Margaret Liu
Cc: Nishikawa, Marilyn@DBO
Subject: Re: CSBS Emerging Payments Task Force -- Next Call and Possible Meeting in San Francisco on July 24

Margaret: I will attend the meetings as proposed. Thank you. J

Jan Lynn Owen
Commissioner
California Department of Business Oversight
1515 K Street Suite 200
Sacramento, California 95814
916-324-9011

www.dbo.ca.gov

On Jun 20, 2014, at 3:00 PM, "Margaret Liu" <MLiu@csbs.org> wrote:

> To : Task Force Members
>
> Reminder that the next call will be on Wednesday, July 2 at 3:30 pm EDT. An Outlook Calendar item is attached.
>
> Separately, following up on the discussion during the most recent call, we have been working on a possible meeting in San Francisco on the heels of the District V meeting. The idea was to take advantage of the fact that several companies are based in the bay area and that we have a handful of TF members who are in District V.
>
> The District V meeting will end on Thursday July 24 at 12pm in San Francisco, California. We are proposing two 90-minute meetings with stakeholders for the afternoon of the 24th, one starting at 1:30 pm PDT and one starting at 3:30 pm PDT. These would be private meetings, with no public component to them.
>
> One meeting would discuss current payment models and how banks and non-banks are adapting for new products and services. The proposed participants would include:
>
> REDACTED
>
> ·
> ·
> ·
> ·
>
> The other meeting would provide a discussion with new entrants into the financial industry and the products they are introducing to the public. The proposed participants would be:
>
> ·
> ·
> ·

REDACTED

We have had preliminary conversations with a few of these companies to explore a possible meeting, and, no surprise, they welcome the opportunity. If this looks like something that you think the task force should do, we will get the word out to the task force and start pulling it together.

Please let me and Jeanette know if you will attend this meeting and, as always, do not hesitate to contact us with any questions.

MCL

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<CSBS Emerging Payments TF - July Call.ics>

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Monday, June 23, 2014 2:40 PM
To:	david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; stephanie.korkor@dfs.ny.gov; khagler@dbf.state.ga.us; Rumberger, Jennifer@DBO; deb.bortner@dfi.wa.gov; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; rick.riccobono@dfi.wa.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; Derek Schultz; maria.filipakis@dfs.ny.gov; Dana.syracuse@dfs.ny.gov; Nishikawa, Marilyn@DBO
Cc:	Chuck Cross; Michael Stevens; Mary Beth Quist; Jeanette Barraza
Subject:	Emerging Payments Task Force -- Call/Webinar with FinCEN on Friday, June 27 at 1:00 PM EDT

Task Force Members,

FinCEN has proposed this Friday, June 27 at 1 pm EDT for a conference call. I apologize for the short notice. Please let me know if you and/or your staff will be able to make this call.

As a reminder, this is a follow-up to the breakfast that we had with Alan Cox from FinCEN at the SFSF, where Alan suggested a call/webinar for FinCEN to share some of their work and findings in the virtual currency arena.

I will follow up with confirmation and call-in information.

MCL

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McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Wednesday, June 25, 2014 12:03 PM
To: Owen, Jan Lynn@DBO
Subject: CSBS Legislative Committee Monthly Call -- Monday, July 7, at 3:00 pm EDT

If this email does not display properly, please view our online version.

TO: Commissioners, Deputies, and Legislative Contacts

The Legislative Committee call normally scheduled for Thursday, July 3 at 3:00 EDT has been moved to **Monday, July 7th at 3:00 pm EDT, 2:00 pm CDT, 1:00 pm MDT, and 12 noon PDT.**

We will send out the agenda in a separate message in the next few days.

Access Instructions:

Click here to add this to your Outlook calendar
Dial: 1-888-827-6040
Participant Passcode: REDACTED

Please let me know if you have any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Wednesday, June 25, 2014 2:44 PM
To: david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; stephanie.korkor@dfs.ny.gov; khagler@dbf.state.ga.us; Rumberger, Jennifer@DBO; deb.bortner@dfi.wa.gov; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; rick.riccobono@dfi.wa.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; Derek Schultz; maria.filipakis@dfs.ny.gov; Dana.syracuse@dfs.ny.gov; Nishikawa, Marilyn@DBO; 'Jarvis, Scott (DFI) (Scott.Jarvis@dfi.wa.gov)'; Mirrashidi, Lila@DBO
Cc: Michael Stevens; John Ryan; Buz Gorman; Chuck Cross; Jeanette Barraza; Margaret Liu; Matt Lambert; Natalie McGarry; Mary Simonds
Subject: Confirming FinCEN Webinar for Friday, June 27 at 1 pm EDT
Attachments: Emerging Payment Task Force Webinar with FinCEN.ics; CSBS Emerging Payments TF - July Call.ics; Ed Leary NACCA FINAL.docx; TCH & ICBA -- Virtual Currency White Paper (June 2014) (FINAL).pdf

TO : Emerging Payments Task Force

I wanted to confirm that we are set for a webinar with FinCEN this Friday, June 27 at 1:00 pm EDT. An outlook calendar item is attached. I will forward the link for accessing the webinar as soon as I get it from FinCEN. This will be a presentation for regulators only.

Separately, I am attaching talking points that were prepared for Ed Leary's recent remarks at the NACCA conference a few weeks ago. During the last call, we discussed a common set of talking points for your use in discussions about the task force and its work. The attached provide an overview of the task force from formation (including membership) through the May 16 public hearing.

Additionally, I am including for your reading and reference a white paper prepared on virtual currency by The Clearinghouse and ICBA.

Finally, we are working on the July 24 meetings in San Francisco. If you will attend and have not informed us, please do so.

Talk to everyone next week. (A calendar item for the July 2 call is also attached)

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Ed Leary
Emerging Payments Task Force Talking Points
NACCA Meeting
Wednesday, June 11

- CSBS is a nationwide organization of banking regulators from the 50 states and the U.S. territories. For more than 100 years, CSBS has given state supervisors a national forum to coordinate supervision and to develop financial policy.
    - Simply put, CSBS is the D.C. field office of state financial regulators.

- As you know, unlike most federal financial regulators, state banking regulators regulate a diverse set of institutions that include many different intermediaries and participants in the payments space.

- For the past few years, we found that we were spending more and more time on payments issues – this includes various mobile payments developments, other technological innovations, and, of course, virtual currencies.

- As a result, last fall, the CSBS Board approved the formation of the **CSBS Emerging Payments Task Force** to take a deep dive on some of these issues, to understand changes in payment systems to determine the potential impact on consumer protection, state law, and banks and non-bank entities chartered or licensed by the states.
    - In addition to myself, the Task Force includes Commissioners from:
        - California
        - Florida
        - Georgia
        - Massachusetts
        - New York
        - Tennessee
        - Texas
        - Washington State
    - David Cotney, Massachusetts Banking Commissioner, chairs the task force.
    - The Task Force will take a comprehensive approach to studying the changing payment systems, including virtual currencies and other innovations.
    - One of our priorities is engagement with a broad range of stakeholders – including fellow state regulators, federal regulators, industry participants, and other experts – to understand how new entrants and technologies affect the stability of payment systems and the broader financial marketplace and to develop ideas for connecting the emerging payments landscape to the financial regulatory fabric.

- Ultimately, the Task Force is seeking the best possible supervisory structure to encourage innovation and consistent regulatory approaches while still maintaining safety and soundness, public confidence, and consumer protection.

- Virtual currencies are a component of the emerging payment systems the Task Force will be looking into, but the scope of the task force will include other technological innovations in the emerging payment system that are relatively new as well.

- The first step of the task force in this regard was the **model consumer guidance on virtual currencies**.
    - The CSBS Emerging Payments Task Force, in partnership with the North American Securities Administrators Association (NASAA), developed the Model Consumer Guidance on Virtual Currency to provide information and factors that consumers should consider prior to utilizing virtual currencies or virtual currency companies.
    - The model consumer guidance reflects the input of regulators in several states.
    - The model consumer guidance is a tool for state regulators to use as part of their efforts to educate consumer about virtual currencies.
    - Among factors to consider, the guidance encouraged consumers to do their own research and warned that virtual currency can be volatile, can be subject to cybercrime, and is oftentimes volatile in nature.
    - The guidance also includes links to helpful website and resources.
    - From this model consumer guidance, several states have drafted their own individual consumer guidance for their constituents.
    - States that have issued guidance on virtual currencies include Alabama Securities Commission, Connecticut, Florida, Idaho, Maryland, Massachusetts, Nevada, New Mexico, Pennsylvania, Washington, and Wisconsin.

- On May 16th, the Emerging Payments Task Force held a **public hearing** in Chicago, IL to explore legacy payment systems, emerging payments innovations, and virtual currencies.
    - Recognizing the varied perspectives and breadth of issues involved in emerging payments, the Task Force thought it crucial to engage external stakeholders on these important issues.
    - In the Legacy Payments Systems panel, panelists spoke about the work being done to enhance the legacy payment systems – the existing, bank-based payments "plumbing" -- to make them faster and more efficient while still preserving consumer confidence and system stability.
        - The panelists emphasized to us a tension and careful balance between meeting speed and efficiency demands of the industry and public while still maintaining vital security measures that protect consumers.
        - The panel also spent time exploring the role of community banks in payments modernization.

  - In the Retail Payments Innovations panel, we asked the panelists about inhibitors to reaching and serving customers while advancing payment systems. The panelists, for the most part, acknowledged that consumer awareness was their primary obstacle to technology adoption more than regulation is, but still stressed the benefits of a risk-based supervisory approach to new payment innovations to allow more flexibility as the industry changes.
  - In the Virtual Currencies panel, regulators were urged to provide clear and consistent regulatory expectations, making it clear that understanding those expectations is critical to developing new technology and meeting consumer needs.
    - Some virtual currency companies also noted their challenges in establishing banking relationships.

- How are crypto-currencies currently regulated at the State Level?
  - The states are currently in the process of determining how crypto-currencies fit within state regulations. For many of the states, crypto-currency companies meet the definition of a money transmitter, most specifically under "monetary value" definition. Monetary value is defined as a medium of exchange whether or not redeemable in money. There are 19 states that have issued Money Transmitter licenses to crypto currency exchanger, CoinX. BitPay, a crypto currency payment processor, is licensed in Georgia.
  - As states license these entities there are application requirements that may include fingerprinting, background checks, surety bonds, permissible investments, and net worth levels to obtain the license. Once the license is granted there may be additional financial and volume reporting to the state agency.
  - At the state level, **Texas** has issued guidance on the regulatory treatment of virtual currencies, indicating that virtual currencies are not regulated under "currency exchange," nor are they considered currency for the purpose of money transmission in the Texas Finance Code. However, exchange of a virtual currency for a foreign currency using a third party exchanger or intermediary (whether that is a person or a "bitcoin ATM") is considered money transmission.
  - **New York** has also taken steps to begin addressing virtual currencies. Superintendent Benjamin Lawsky has indicated that he wishes to begin establishing regulatory guidelines for virtual currency exchanges, officially accepting applications for virtual currency exchange licenses starting in March.
  - As states develop their guidelines based on their respective laws, the Emerging Payments Task Force is exploring ways to foster consistency among the states.

- What are the expectations at the Federal level?
  - At the **federal level**, on March 18, 2013, the Financial Crimes Enforcement Network (FinCEN) issued guidance that "administrators" and "exchangers" were Money Transmitters and were required to comply with federal money services businesses

    (MSB) registration requirements as well as comply with Bank Secrecy Act/Anti-Money Laundering (BSA/AML) requirements.
        - An "exchanger" is a person engaged as a business in the exchange of virtual currency for real currency, funds, or other virtual currency.
        - An "administrator" is a person engaged as a business in issuing (putting into circulation) a virtual currency, and who has the authority to redeem (to withdraw from circulation) such virtual currency.
    - At the **federal level**, on March 24, 2014, The Internal Revenue Service (IRS) issued a notice that virtual currency is to be treated as property. General tax principles applicable to property transactions apply to transactions using virtual currency. This includes determining the fair market value of virtual currency in U.S. dollars as of the date of payment or receipt, as well as any gain or loss incurred.
        - Please note that questions have arisen as FinCEN and IRS have given different determinations.

- Moving forward, the Task Force hopes to continue their collaboration with industry experts and partners while producing new, useful products for both consumers and experts to use.
    - Beyond the recording and transcript for the hearing – both of which are now available on the CSBS website – we will be producing a list of key findings from the hearing to serve as a summary for anybody wishing to reference the most salient points from the panels.
    - In the months to come, we will discuss development of a Model State Regulatory Framework or a set of Model Regulatory Principles.
    - While still meeting with and hearing from industry leaders, the Task Force will also be expanding our efforts to gather information from consumers, other stakeholders, and from our federal regulatory counterparts.
        - By speaking to consumers, we are hoping to better understand how we can provide simple, effective regulation that protects them while still bringing the benefits of innovation to the marketplace.
        - Engagement with our federal regulatory partners is particularly critical because of the importance of regulatory coordination and collaboration in the payments arena. Many regulators have a stake in the stability of the payment system and those regulators should not be operating in silos.

- Thank you for your time; I will be happy to address any questions you may have about our work and our progress so far.

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INDEPENDENT COMMUNITY BANKERS of AMERICA

VIRTUAL CURRENCY: RISKS AND REGULATION

JUNE 23, 2014

EXECUTIVE SUMMARY

Only a few years ago, virtual currencies were little-known outside of the online video gaming community. Today, the total market value of the top one hundred convertible virtual currencies exceeds US$9 billion, and governments in the United States and throughout the world are struggling to determine whether, and how, virtual currencies should be regulated. Virtual currencies offer consumers a new choice of payment method and are spurring significant investments in payments technology that have the potential to create further new options for consumers and investors in the future. However, current limited regulation and oversight applied to the virtual currency marketplace and transactions in virtual currency mean that consumers and investors that pay with or hold virtual currency are exposed to significant risks. This white paper will describe the types of virtual currencies gaining prominence in the marketplace today, the roles of the players in virtual currency systems and transactions, the consumer and systemic risks associated with virtual currency systems, and potential regulatory approaches to managing those risks.

Part I of this white paper defines "virtual currency" and describes the current regulatory environment for virtual currency in the United States. There are many new or emerging payment products and media of exchange that could constitute virtual currency, and given the rapidly changing nature of this issue, establishing firm definitions is a challenge and any analysis must necessarily set aside certain questions for later consideration. This white paper generally relies on the definitions established by the Financial Crimes Enforcement Network ("FinCEN") to classify virtual currencies as convertible or non-convertible, and then as centrally administered or decentralized. FinCEN, as the first federal regulator to issue guidance on virtual currency, has focused on convertible decentralized virtual currencies, given the anti-money laundering and other law enforcement concerns raised by such currencies. As the public debate now shifts to the consumer-protection and systemic stability challenges associated with virtual currencies, it has once again been convertible decentralized virtual currencies that have been the focus of concern. Therefore, while recognizing the regulatory challenges posed by centrally administered and non-convertible virtual currencies, this white paper focuses on the regulation and potential regulation of convertible decentralized virtual currencies. Using Bitcoin as the paradigmatic example of such a currency, Part II describes the key players and their roles within the Bitcoin system, as well as the flow of a basic purchase transaction using Bitcoin.

Part III of this white paper discusses the application of certain functional and prudential payment systems regulations that may be applied to protect users of the Bitcoin system (and, by analogy, other convertible decentralized virtual currency systems). In particular, Part III concludes as follows:

- Credentials used to transact in Bitcoin are functionally similar to prepaid cards. In fact, such credentials arguably fall within the definition of such cards provided in Regulations E and II. However, Bitcoin transactions lack the consumer protections associated with debit card and payroll card transactions (and which are expected soon to extend to prepaid card transactions).

- Although the Consumer Financial Protection Bureau (the "CFPB") has not issued guidance on this question, the CFPB may determine that cross-border transactions in Bitcoin fall within the scope of the Remittance Transfer Rule promulgated by the CFPB to implement Section 1073 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Were the CFPB to make such a determination, entities facilitating such transfers would be obligated to comply with the Remittance Transfer Rule's disclosure, reversibility, and error-resolution requirements. Application of the Remittance Transfer Rule, while challenging under the current structure of the Bitcoin system, would introduce protections for consumers engaged in cross-border Bitcoin transactions on par with protections afforded to consumers funding cross-border transactions in other currencies.

- Under the current federal regulatory regime, players in the Bitcoin system are not subject to safety and soundness oversight, and no entity in the Bitcoin system is yet large enough to be subject to oversight as a systemically important institution or utility, even were such regulations applicable.

Part IV of this white paper evaluates the potential avenues for regulation of virtual currency, investment programs involving virtual currency, and exchanges trading virtual currency under U.S. securities and commodities laws and state laws. Specifically, Part IV finds:

- Although possible, it may be difficult to establish that Bitcoin and other individual units of virtual currency constitute securities, subject to Securities and Exchange Commission ("SEC") jurisdiction. However, the SEC has regulatory and enforcement authority with respect to Bitcoin investment programs even if Bitcoins themselves are not securities. In addition, Bitcoin-based derivative securities fall under the SEC's jurisdiction.

- Unlike regulators in some other countries, the Commodity Futures Trading Commission ("CFTC") has not yet determined if Bitcoins constitute commodities, although it is reportedly reviewing the applicability of its authority to virtual currency transactions and virtual currency exchanges.

- Existing regulations intended to protect consumers and market participants in the event of the failure of a securities or commodities exchange may be inapplicable to Bitcoin exchanges. In the absence of federal authority to regulate such exchanges, alternative means of protecting investors and accountholders – such as disclosure requirements and coordinated state-level registration of exchanges – should be explored.

If and how virtual currencies are further regulated in the United States to protect consumers, protect the safety and soundness of the financial system, and deter and detect illicit activity remains to be seen. The purpose of this white paper is to promote consideration of how existing regulatory regimes in the U.S. may be applied to virtual currency, virtual currency system participants and products, and virtual currency transactions.

INTRODUCTION

As the use of virtual currencies for payment transactions and speculative investments in virtual currencies rapidly expand, regulators in the United States and abroad are grappling with how best to regulate such currencies to protect consumers and investors, maintain the stability of the financial system, and deter use of virtual currency systems in money laundering and terrorist financing. This white paper addresses the potential application of existing payments, securities, and commodities regulations to protect consumers, investors, and the financial system. Part I of this white paper summarizes current regulatory approaches to virtual currencies in the United States and abroad. Part II describes the virtual currency system (using Bitcoin as an example) and a typical virtual currency transaction. Part III discusses potential application of current payments-system regulations to virtual currencies to mitigate consumer risk. Finally, Part IV addresses current and potential approaches to regulating virtual currencies and virtual currency institutions under U.S. securities and commodities laws and state laws.

A major focus of public debate regarding regulation of virtual currency is the protection of consumers. Traditional payment systems afford consumers protection against a variety of risks. Virtual currencies have the potential to expand consumer choice and spur new technology development and investment. However, because virtual currencies are subject to limited regulation and, as further discussed below, due to structural aspects of the virtual currency ecosystem, many such consumer protections currently are absent in the virtual currency context. The significant consumer risks associated with the use and ownership of virtual currency is summarized in Table 1.

Table 1: Consumer Risks	
Loss or theft	Virtual currency can be lost through a security breach, user error, or a technological failure at a virtual currency wallet or exchange. Once lost, virtual currency typically cannot be regained.
Fraud or unauthorized use	Generally, virtual currency can be spent by anyone in possession of the associated ownership credentials. Transactions in most currencies are not reversible, even if the result of fraud or unauthorized use.

Transaction processing error	In the event that a payment is misdirected, an incorrect amount is transferred, or a transaction is not completed in a timely manner due to an error by a virtual currency wallet, exchange, or processor, in most currencies the transaction is not reversible, the error is not correctible, and the consumer has no recourse against the wallet, exchange, or processor.
Failure of a wallet or exchange	No insurance mechanism exists to make accountholders whole in the event that a virtual currency wallet or exchange operator fails and accounts become inaccessible.
Inadequate disclosures	Wallets and exchange operators have no obligation to provide disclosures to consumers related to service fees or charges associated with virtual currency transactions, the volatility and unregulated nature of the virtual currency ecosystem, or any of the other risks described in this table.

Although there currently are hundreds of virtual currencies in existence, the most significant virtual currencies circulating today are based on the open-source Bitcoin protocol. Bitcoin remains the single largest virtual currency by market value, accounting for approximately US$6.3 billion of the roughly US$10 billion total value of convertible virtual currency in circulation.[1] In addition, as a result of its size and influence on the development of other virtual currencies, it is Bitcoin that has been the primary focus of regulator and policymaker attention in the U.S. and abroad. Therefore, this white paper frequently addresses the risks and regulation of virtual currency systems and transactions through the lens of Bitcoin.

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[1] Value as of April 17, 2014. The virtual currency market is highly volatile. The aggregate market value of Bitcoin, for example, dropped by almost half from December 1, 2013 to April 17, 2014, even though the Bitcoin supply increased during the same period. Live market capitalization of 158 convertible virtual currencies can be viewed at https://coinmarketcap.com.

I. **Defining Virtual Currency**

a. Types of Virtual Currencies.[2]

As is frequently the case in emerging areas of law or policy, the terminology used to describe and classify virtual currency is somewhat fluid. This white paper will rely primarily on the nomenclature and definitions employed by FinCEN in its March 2013 virtual currency guidance (the "Virtual Currency Guidance").[3] The Virtual Currency Guidance describes a virtual currency as a medium of exchange that operates like a fiat currency in certain circumstances, but that lacks key definitional aspects of fiat currency. Specifically, a virtual currency is not legal tender in any jurisdiction.[4] In addition, although this distinction is not drawn in the Virtual Currency Guidance, references to virtual currency typically encompass only currencies that are issued and circulate primarily in a digital format (as opposed to local currencies, like BerkShares,[5] which are issued and circulate primarily as physical specie). While non-convertible virtual currencies exist, the riskier type of virtual currency (and the type that has received the most regulatory scrutiny) is convertible virtual currency, which may be exchanged for fiat currency.

FinCEN classifies virtual currencies based on how, and by whom, they are issued and redeemed.[6] A *centrally administered* virtual currency features a centralized repository and a single administrator with authority to issue and redeem units of the currency. The largest centrally administered virtual currency currently is XRP, the native currency of the Ripple

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[2] "Virtual currency," broadly defined, encompasses a wide range of digital means of storing value and exchanging that value for real or virtual goods and services. In-game currencies such as Linden Dollars (used in online virtual world Second Life), rewards programs (such as American Express Membership Rewards Points or Delta's Skymiles program) that allow use of points or frequent-flyer miles for purchases in a virtual marketplace, and closed-loop credits like Amazon Coins or Facebook's now-shuttered Credits program all share attributes with the virtual currencies discussed here. As further described in this section, the scope of this white paper is limited to convertible virtual currencies, and the analysis is focused on decentralized virtual currencies. However, the risks described in this white paper are present in many other virtual media of exchange.

[3] FinCEN, *Application of FinCEN's Regulations to Persons Administering, Exchanging, or Using Virtual Currencies*, March 18, 2013 (*available at* http://fincen.gov/statutes_regs/guidance/pdf/FIN-2013-G001.pdf).

[4] Note that it is for this reason that virtual currency transactions do not constitute "Payment Orders" under UCC-4A. UCC 4A-103 defines a "Payment Order" as an instruction to pay "money," and "money" is defined in UCC 1-201(24) as "a medium of exchange currently authorized or adopted by a domestic or foreign government."

[5] BerkShares are a community currency issued by a nonprofit for use in the Berkshire region of Massachusetts. *See* www.berkshares.org.

[6] FinCEN also considers e-currencies and e-precious metals (typically, certificates evidencing ownership of fiat currency or precious metals) to constitute virtual currency; however, the regulatory regime applicable to e-currencies and e-precious metals is well-established and is not further discussed in this white paper.

Network, which is issued by Ripple Labs Inc.[7] A *decentralized virtual currency*, by contrast, has no centralized repository and no single administrator.[8] Users may obtain the currency through their own computing or manufacturing effort (typically referred to as "mining"). Bitcoin is a decentralized virtual currency, as are the majority of the virtual currencies modeled on the Bitcoin protocol (such as Litecoin and Peercoin).

b. Current U.S. and International Regulation

The concept that became Bitcoin was first proposed in a paper published online in November 2008.[9] Roughly four years later, FinCEN issued the Virtual Currency Guidance, which describes the circumstances in which persons engaged in virtual currency transactions are classified as money transmitters for purposes of the Bank Secrecy Act ("BSA")'s implementing regulations. The Virtual Currency Guidance was followed by two FinCEN administrative rulings, both issued in January 2014 (the "Virtual Currency Rulings"), applying the Virtual Currency Guidance to specific Bitcoin miner and Bitcoin investor fact patterns.[10] Collectively, the Virtual Currency Guidance and the Virtual Currency Rulings clarified that FinCEN categorizes many virtual currency exchanges, wallet operators, and miners operating in the United States as money transmitters and that such entities are required to comply with the BSA's know-your-customer and anti-money laundering requirements.

Notwithstanding significant governmental and regulatory interest in virtual currencies throughout 2013, as of the date of this white paper, FinCEN is the only U.S. federal financial regulator to take an official position with respect to virtual currency regulation. Outside the context of financial regulations, the Internal Revenue Service (the "IRS") issued guidance on March 25, 2014, stating that virtual currencies are treated as property for federal tax purposes.[11] In response, on April 8, 2014 Representative Steve Stockman (R-TX) announced that he would introduce legislation to require virtual currencies to be taxed as currency.[12] In addition, the U.S. Senate Committee on Homeland Security and Governmental Affairs held hearings regarding virtual currency regulation in late 2013 and early 2014; however, it is unclear when or if Congress will take definitive action.

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[7] XRP is the largest non-Bitcoin-based virtual currency, with a market capitalization of approximately $48 million as of the date of this white paper. The Ripple Network, which is run by Ripple Labs Inc., is a distributed transaction ledger with an integrated currency exchange function, permitting buyers and sellers to transact in different units of exchange, including virtual currencies, fiat currencies, cellphone minutes, and other units of exchange. XRP acts as a "bridge" currency when there is not an established exchange rate for the buyer's and seller's currencies within the Ripple Network. *See* https://ripple.com.

[8] Although the Virtual Currency Guidance does not address this, many virtual currencies have a semi-centralized model. For example, all or a portion of the currency may be initially issued by a central authority that has no ongoing role in managing the currency supply. Bitcoin, however, is fully decentralized.

[9] Nakamoto, Satoshi. "Bitcoin: a Peer-to-Peer Electronic Cash System," Nov. 1, 2008 (*available at* https://bitcoin.org/bitcoin.pdf). Attempts to verify the identity of Satoshi Nakamoto have thus far proved unsuccessful, and the name is widely believed to be a pseudonym.

[10] FinCEN, *Application of FinCEN's Regulations to Virtual Currency Mining Operations*, Jan. 30, 2013 (*available at* http://www.fincen.gov/news_room/rp/rulings/pdf/FIN-2014-R001.pdf) (the "Mining Ruling"); FinCEN, *Application of FinCEN's Regulations to Virtual Currency Software Development and Certain Investment Activity*, Jan. 30, 2014 (*available at* http://www.fincen.gov/news_room/rp/rulings/pdf/FIN-2014-R002.pdf) (the "Investment Ruling").

[11] IRS Virtual Currency Guidance, IR-2014-36 (*available at* http://www.irs.gov/pub/irs-drop/n-14-21.pdf).

State financial regulators in New York, Texas, and Washington have also provided guidance regarding treatment of virtual currencies under state law. The New York Department of Financial Services ("NYDFS") also held hearings on virtual currency issues in early 2014. On March 11, 2014, NYDFS announced that it is accepting license applications and proposals from virtual currency exchanges located in New York. However, NYDFS has not adopted regulations or issued official guidance on virtual currency exchanges, and it remains unclear what NYDFS considers to be the scope of its regulatory authority or what criteria it will use to review license applications.[13] The Texas Banking Department issued a supervisory memorandum in early April providing that virtual currencies are not subject to state currency exchange licensing, but that the exchange of sovereign currency for virtual currency through a third party or an ATM will generally constitute money transmission and that such exchangers or ATM operators must comply with state registration requirements.[14] Finally, the Washington Department of Financial Institutions ("WDFI") has stated that virtual currencies are a means of transmitting money or its equivalent value, and that companies engaged in transmission of digital currency may contact WDFI for a determination of whether they are subject to licensure requirements.[15]

Outside of the U.S., regulatory attitudes toward virtual currency vary widely. In December 2013, the Chinese central bank prohibited merchants from accepting Bitcoins as payment and prohibited payment processors from converting Bitcoins into yuan.[16] The Canadian agency responsible for combatting money laundering stated in late 2013 that virtual currency exchanges were not subject to existing anti-money laundering regulations, but in mid-February 2014, the Canadian government announced plans to expand the scope of such regulations to account for virtual currencies.[17] Finland regulates virtual currencies as commodities, while Sweden taxes them as assets of the same class as fine art.[18] Given the lack of international consensus regarding classification and treatment of virtual currencies, the regulatory approach ultimately adopted by the U.S. is likely to have a significant influence on the shape of the global virtual currency economy in years to come.

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[12] *See* http://stockman.house.gov/media-center/press-releases/stockman-plans-to-introduce-the-virtual-currency-tax-reform-act.

[13] N.Y. Dep't of Fin. Servs., "Order Pursuant to New York Banking Law §§ 2-b, 24, 32, 102-a, and 4001-b and Fin. Servs. Law §§ 301(c) and 302(a)" (Mar. 11, 2014) (*available at* http://www.dfs.ny.gov/about/po_vc_03112014.pdf).

[14] Texas Dep't of Banking, "Regulatory Treatment of Virtual Currencies Under the Texas Money Services Act" (Apr. 3, 2014) (*available at* http://www.dob.texas.gov/public/uploads/files/Laws-Regulations/New-Actions/sm1037.pdf).

[15] Washington Dep't of Fin. Institutions, "Virtual Currency Regulation" (*available at* http://www.dfi.wa.gov/cs/pdf/virtual-currency-regulation.pdf).

[16] Library of Congress, *Regulation of Bitcoin in Selected Jurisdictions* (2014) (*available at* http://www.loc.gov/law/help/bitcoin-survey/index.php).

[17] *Id.*

[18] *Id.*

II. The Bitcoin System and Bitcoin Transactions.[19]

Bitcoin is the largest virtual currency, with a total market capitalization in excess of US$6 billion. Bitcoin's open-source protocol is the basis for the majority of other major virtual currencies, and therefore, understanding the Bitcoin system and how a Bitcoin transaction is conducted is helpful to understanding the risks associated with virtual currency systems and transactions generally.

a. Players in the Bitcoin System and their Roles.

The Bitcoin system is a peer-to-peer network of servers (each, a "node"), each running an open-source protocol that both enables the generation of new Bitcoins and facilitates the creation of a public registry of past transactions in existing Bitcoins. The transfer of Bitcoins from buyer to seller is conducted through a Bitcoin wallet, which integrates with the network through a node, enabling the publication of the transfer transaction to the network. Bitcoin exchanges, meanwhile, facilitate the acquisition of Bitcoins in exchange for fiat currency. Bitcoin has no central administrator or repository, no entity is vested with the ability definitively to establish ownership of a given Bitcoin, and, as further described below, there is no institution that polices theft or fraud or makes holders whole in the event that Bitcoins are stolen or lost.

i. Bitcoin Miners

The Nodes that make up the Bitcoin network are established and maintained by individuals or groups that wish to generate ("mine") new Bitcoins. These individuals or groups are referred to as "miners." Miners obtain new Bitcoins by solving cryptographic problems. When a miner solves a problem (described as generating a "proof-of-work"), the miner is entitled to add a block of Bitcoin transactions to the blockchain, and is rewarded with newly generated Bitcoins. The blockchain is the public registry of all Bitcoin transactions, maintained as a distributed peer-to-peer network. The blockchain reflects ownership of all Bitcoins and the complete history of Bitcoin transactions. Each Bitcoin has a unique serial number, which permits tracking and recording of the transaction history of that Bitcoin in the blockchain.

The algorithm that generates Bitcoins through mining efforts has been designed to limit the total supply to 21 million Bitcoins, of which roughly 12.5 million have been mined.[20] The reward rate associated with mining declines over time to enforce increasing scarcity. Miners introduce Bitcoins into circulation by using them to purchase goods and services or by selling them to exchanges. Per the Mining Ruling, a miner does not become subject to the BSA simply by virtue of its mining activity or by using Bitcoins in purchase transactions or converting them to fiat currency for its own account.[21]

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[19] Primary sources for this section are the Nakamoto paper cited at fn. 7, above; CoinDesk's *A Beginner's Guide to Bitcoin* (*available at* http://www.coindesk.com/information/); and Blockchain.info, which hosts the publicly searchable blockchain database and technical information regarding Bitcoin mining.

[20] *See* http://blockchain.info for real-time statistics on the current total supply of Bitcoins.

ii. Bitcoin Wallets

In order to use Bitcoins to make purchases, a user must have a Bitcoin wallet. A wallet is a piece of software that performs two principal functions: (a) assigning Bitcoin addresses to Bitcoin users and (b) facilitating Bitcoin transactions by (i) enabling users to send and receive Bitcoins and (ii) publishing the associated transaction to the network.[22] The most basic wallets are simple, open-source software available for free. In the case of free, open-source wallets, there is no "wallet provider" other than the user himself (i.e., neither the software developer nor a third party provides additional, ongoing services to the user of the wallet software). More sophisticated wallets add integrated Bitcoin exchange or payments processing functionality, and typically charge user fees.

A Bitcoin address is a randomly generated string of letters and numbers that identifies a user for purposes of Bitcoin transactions. Bitcoin ownership and Bitcoin transactions are anonymous in the sense that there is no comprehensive registry associating Bitcoin addresses to their owners. However, the Bitcoin address that owns a given Bitcoin, as well as every Bitcoin address that has previously owned that Bitcoin, is publicly viewable in the blockchain.

Each Bitcoin address is secured by an associated private key, which is used to verify ownership of the Bitcoins associated with the public address. Like the Bitcoin address, the private key is generated by the wallet. A user must have a Bitcoin address and associated private key in order to conduct Bitcoin transactions. However, there is no mechanism in the Bitcoin system to associate a public address/private key combination with a particular person. In this regard, a Bitcoin is similar to cash or other bearer instruments – ownership is determined based on possession of the public address/private key combination.

In addition to providing and supporting the exchange of credentials needed to evidence ownership and transfer of Bitcoins, Bitcoin wallets publish transaction records to the Bitcoin network, thereby enabling miners to record those transactions in the blockchain and publicly register the changes in ownership of the Bitcoins transferred. A Bitcoin cannot be effectively transferred from one Bitcoin address to another without the use of a wallet.

iii. Bitcoin Exchanges

Bitcoin exchanges offer a range of functions. The most basic exchanges simply provide a platform for advertising Bitcoins up for sale, which brings buyers and sellers together for direct sales of Bitcoins between them. More sophisticated exchanges permit users to establish accounts, maintain Bitcoin and fiat currency balances in "accounts," and place standing buy/sell orders, similar to the functioning of a traditional brokerage account (as more fully discussed in Part IV of this white paper). Bitcoins purchased by a user may be maintained in the name of the account holder or of the exchange. Many exchanges offer integrated wallet functionality to facilitate use of acquired Bitcoins for payment transactions or payments processing for merchants that do not wish to accept Bitcoins directly. Under the Virtual Currency Guidance, most exchanges are treated as money services businesses subject to the BSA, and the New York Department of Financial Services has expressed its intent to license exchanges located in New York.[23]

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[21] However, a miner that mines at the behest of a third party may be subject to the BSA. *See* the Mining Ruling for analysis of additional scenarios and their regulatory treatment.

[22] Notwithstanding the use of the term "wallet," it is not necessary that users store their Bitcoins in their wallets. In fact, for security reasons, users are often advised to store a list of their Bitcoin serial numbers on paper, a USB key, or a non-internet-connected hard drive (all of which are referred to as "cold storage" or "cold wallets") rather than in an online (or "hot") wallet. The user must then load the Bitcoin into the wallet prior to using it for a transaction.

iv. Bitcoin Processors

A merchant can accept Bitcoins for purchase transactions by transfer directly from the customer's Bitcoin wallet to the merchant's Bitcoin wallet. Alternatively, a merchant may use a payment processor that supports Bitcoin acceptance. When a merchant uses a Bitcoin processor, the buyer transfers ownership of the Bitcoins used in the purchase transaction to the merchant's Bitcoin processor. The Bitcoin processor then settles to the merchant either in Bitcoins or in fiat currency, depending on any restrictions applicable in the merchant's jurisdiction and merchant's preference. Bitcoin processors settling in fiat currency may offer hourly or daily fixed exchange rates to reduce volatility.

b. Bitcoin Payment Transactions.

This section describes the steps involved in a simple consumer-to-merchant Bitcoin purchase transaction. However, at present, most Bitcoins are acquired for investment/speculation purposes and are not used in retail purchase transactions.

i. Initiating a Purchase of Goods or Services using Bitcoins

Using a Bitcoin wallet, a buyer transfers ownership of the Bitcoin from the buyer's Bitcoin address to the seller's Bitcoin address. The buyer attaches a digital signature, generated from the private key associated with the buyer's Bitcoin address, to the transaction. The digital signature serves as verification that the buyer possesses the private key associated with the Bitcoin address from which the Bitcoin is being transferred.

ii. Confirming the Transaction

The wallet provider through which the transaction is conducted broadcasts the transaction details to all of the nodes in the Bitcoin network to which the wallet provider is connected. Miners gather up the new transactions broadcast to the network into a group called a "block." Once a miner has generated a proof-of-work, the miner is entitled to add the block of transactions it has gathered to the public blockchain. Once the transfer of ownership from the buyer to the seller is added to the blockchain, it becomes public record and the transfer of Bitcoins from the buyer to the seller is deemed "confirmed." Confirmation typically takes approximately ten minutes. Transaction fees can be paid to miners to ensure that a transaction is quickly picked up and included in a published block of transaction records.

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[23] Section I.b, *supra*, and Part IV below.

iii. Avoiding Double Spending of a Single Bitcoin

When a miner seeks to add a block to the blockchain, the Bitcoin protocol scans the records of historical transactions to verify that none of the Bitcoin transfers reflected in the block are duplicates of previously recorded transactions. If the Bitcoin protocol identifies a prior, conflicting transaction (e.g., where the same buyer has used the same Bitcoin for two different transactions), the new block containing the conflicting transaction will be rejected and cannot be added to the blockchain. Thus, nothing prevents a single Bitcoin from being used for multiple transactions before one of those transactions is confirmed through publication in the blockchain. For that reason, merchants typically will not finalize a Bitcoin transaction, and a Bitcoin transaction is reversible, until it has been confirmed.

III. Payments Regulation Issues

As noted above, to date, FinCEN is the only U.S. financial regulator that has taken definitive action with respect to virtual currency. This section considers the similarities between virtual currencies and other methods of payment, and the potential application of existing payments regulatory regimes in the virtual currency context. This white paper does not suggest in all cases that existing laws or regulations, as written, encompass virtual currencies, but rather that, given significant similarities, the application of these regulatory regimes to include virtual currencies could mitigate certain risks posed by an unregulated virtual currency economy. Bitcoin will again be used as the evaluated virtual currency for purposes of this Part.

a. Functional Similarity between Prepaid Cards and Bitcoin Addresses/Keys

Existing regulatory definitions of "reloadable general-use prepaid card" reflect certain functional similarities between prepaid cards and Bitcoin addresses and keys ("Bitcoin Credentials") that may merit functionally similar regulation. The CFPB and the Federal Reserve Board (the "Board") have defined "general-use prepaid card" to be a card, code or device that is (i) issued on a prepaid basis primarily for personal, family, or household purposes to a consumer in a specified amount, whether or not that amount may be increased or reloaded, in exchange for payment; and (ii) redeemable upon presentation at multiple, unaffiliated merchants for goods or services, or usable at automated teller machines.[24] A general-use prepaid card that can be reloaded is a "reloadable general-use prepaid card."

When a consumer receives Bitcoin Credentials and purchases Bitcoins to associate with those Bitcoin Credentials, the Bitcoin Credentials appear to function similarly to a reloadable general-use prepaid card. The Bitcoin Credentials consist of codes that are associated with prepaid value (value denominated in Bitcoins[25]) and the Bitcoin Credentials may be presented for redemption at multiple, unaffiliated merchants in the purchase of goods or services. Further, the Bitcoin Credentials may be reloaded with additional Bitcoins.

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[24] *See* 12 C.F.R. § 1005.20(a)(3) ("Regulation E") and 12 C.F.R. § 205.235.1(i) ("Regulation II").

[25] It is worth noting that neither the CFPB nor the Board has excluded products denominated in currencies other than fiat (or real) currencies from the definition of general-use prepaid card or reloadable general-use prepaid card for purposes of Regulation E or Regulation II. In contrast, FinCEN has interpreted its

While reloadable general-use prepaid cards currently are subject to limited federal consumer protections, the regulatory landscape for these products is changing rapidly. On May 24, 2012, the CFPB issued an advance notice of proposed rulemaking seeking comment and information from the public about reloadable general-use prepaid cards and suggesting that the CFPB was inclined to extend Regulation E protections to these products. Recently, the CFPB has indicated that proposed regulations on this topic will be issued in the first half of 2014.

Unlike debit cards and payroll cards (and likely soon, reloadable general-use prepaid cards), which are subject to consumer protections established pursuant to the Electronic Fund Transfer Act and Regulation E (including disclosure requirements, fraud protection and protection against transaction errors), consumers holding Bitcoin Credentials and engaging in Bitcoin transactions are afforded no similar protections at law.[26] Consumers are not entitled to initial or periodic disclosures in connection with the acquisition or holding of Bitcoin Credentials, and consumers engaging in Bitcoin transactions are not entitled to protection against erroneous or fraudulent transactions. Bitcoin transactions, once published to the blockchain, are irreversible and cannot be disputed for any reason, including with the consumer's Bitcoin wallet provider. Lost or stolen Bitcoin Credentials cannot be retrieved and the associated Bitcoins are effectively lost or stolen with the Bitcoin Credentials. The value loaded onto general-use reloadable prepaid cards generally is held by regulated and insured depository financial institutions, which frequently afford consumers protection (in the form of pass-through deposit insurance) if the institution fails and which frequently adopt (voluntarily, at present) consumer protections similar to those applicable to debit cards and payroll cards under Regulation E. By contrast, if a Bitcoin wallet provider or a Bitcoin exchange with wallet functionality fails, users that have not maintained backup records of their Bitcoin Credentials will permanently lose access to their Bitcoins.[27]

b. Application of the Remittance Transfer Rule

Effective October 28, 2013, the CFPB requires any company that electronically transfers funds from a U.S. consumer to a recipient outside the U.S. (a "remittance transfer") to provide certain disclosures to the consumer regarding the transfer, facilitate the resolution of errors,

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regulations applying BSA requirements to certain providers of prepaid access (the "Prepaid Access Rule") as applying only to prepaid products denominated in real (fiat) currency, and not to prepaid products denominated in virtual currency. *See* FinCEN, *Application of FinCEN's Regulations to Persons Administering, Exchanging, or Using Virtual Currencies*, March 18, 2013 (*available at* http://fincen.gov/statutes_regs/guidance/html/FIN-2013-G001.html).

[26] The purchase of the Bitcoin itself, if effected with a debit card, payroll card, or credit card, would be subject to Regulation E or Regulation Z (as applicable) and other consumer-protection regulations. However, a subsequent consumer transaction effected with the purchased Bitcoin would not be.

[27] As discussed above, in some cases, there will be no wallet provider associated with a Bitcoin wallet. Where there is no wallet provider, there is no entity that can be subject to regulation other than the user. Regulating the user would not likely be viewed as furthering the consumer-protection policy that motivates much of the existing payments regulatory framework.

and permit a sender to cancel the remittance transfer during the thirty-minute period after the transfer was requested. These requirements are described in the Remittance Transfer Rule.[28] While the disclosure requirements may not be particularly challenging for wallet providers, implementing the Remittance Transfer Rule's error-resolution and transaction-reversal requirement in the Bitcoin context would be very difficult unless structural changes were made to the Bitcoin protocol itself, as well as to the industry's business practices.

The Remittance Transfer Rule defines the term "remittance transfer" broadly to include the vast majority of electronic funds transfers sent by U.S. consumers to consumers and businesses in foreign countries.[29] The commentary to the Remittance Transfer Rule includes examples of remittance transfers, such as international wire transfers, international ACH transfers, and the addition of funds to a prepaid card by a participant in a prepaid card program that is directly engaged with the sender to add these funds, where the prepaid card is sent or was previously sent by a participant in the program to a person in a foreign country. The CFPB has not taken a position on whether the Remittance Transfer Rule applies to cross-border virtual currency transactions. However, the CFPB clearly contemplated transactions involving "virtual wallets" in its remittance transfer rulemakings.[30] Given FinCEN's classification of most wallet providers and exchanges as money transmitters, the CFPB may determine that virtual currency wallets and exchanges must comply with the Remittance Transfer Rule when facilitating a transfer of Bitcoins from a consumer in the U.S. to a recipient outside the U.S.

c. Safety and Soundness Oversight of Bitcoin Wallets and Exchanges

Virtual currency systems, including the Bitcoin system, present most of the risk characteristics to participants and users discussed by the Board in its Policy on Payment System Risk, including legal risk, operational risk, liquidity risk and credit risk. The Mt. Gox collapse demonstrated well how these risks, left unchecked, can rapidly undermine confidence in a payment or exchange system.[31] However, whether virtual currency systems or exchanges may be subject to the Board's present authority to oversee the management of payment systems risks is questionable. Prior to subjecting a virtual currency market participant, such as an exchange or wallet provider, to payment systems risk or other prudential oversight by the Board, the entity would likely need to be designated for such supervision by the Financial Stability Oversight Council ("FSOC").

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[28] 12 C.F.R. § 1005.30 *et seq.*

[29] "Remittance transfer" is defined generally to mean "the electronic transfer of funds requested by a sender to a designated recipient that is sent by a remittance transfer provider." 12 C.F.R. § 1005.30(e). "Sender" is defined to mean "a consumer in a State who primarily for personal, family, or household purposes requests a remittance transfer provider to send a remittance transfer to a designated recipient." *Id.* § 1005.30(g). "Designated recipient" is defined to mean "any person specified by the sender as the authorized recipient of a remittance transfer to be received at a location in a foreign country." *Id.* § 1005.30(c).

[30] For example, in its discussion of the types of international transfers that would be subject to the rule, the CFPB stated that "[f]unds can also be transferred among consumers' ''virtual wallets,' through accounts identified by individuals' email addresses or mobile phone numbers. Electronic Fund Transfers (Regulation E) 77 Fed. Reg. 6194, 6196. (Feb. 7, 2012). In addition, in its discussion of a sender's right to cancel a remittance transfer to the extent that funds have not already been deposited into an "account" of the designated recipient, the CFPB noted that "such accounts need not be accounts held by a financial institution so long as the recipient may access the transferred funds without any restrictions regarding the use of such funds. For example, some Internet-based providers may track consumer funds in a virtual account or wallet and permit the holder of the account or wallet to make purchases or withdraw funds once funds are credited to the account or wallet." *Id.* at 6263.

Title VIII of the Dodd-Frank Act vested in FSOC authority to designate a financial market utility ("FMU") or the payment, clearing, and settlement activities ("PCS Activities") of a financial institution[32] as systemically important or likely to become systemically important and therefore subject to enhanced federal prudential oversight and Board risk standards. An FMU or PCS Activities may be subject to designation by FSOC if FSOC determines that a system failure of the FMU or of the financial institution's PCS Activities would threaten the overall stability of the financial system.

Given the limited size of the virtual currency economy, no virtual currency exchange or wallet currently is likely to satisfy the requirements that must be met to be eligible for designation as a systemically important FMU or as engaging in systemically important PCS Activities. Consequently, no regulation of the safety and soundness of any virtual currency-focused market utility or participant, regardless of size, exists. Virtual currency markets currently operate entirely outside of the regulated banking system, and so are not subject to prudential regulation by financial institution regulators.[33] However, as virtual currency transaction volume increases, the impact on the overall U.S. economy of the failure of a major exchange or wallet operator will become more significant.

Risky behavior and insufficient controls already have resulted in major disruptions to the virtual currency economy, and millions of dollars in losses to consumers that likely would have been avoided were certain virtual currency actors subject to safety and soundness oversight. For example, Mt. Gox – formerly the largest Bitcoin exchange by volume – failed in early 2014, resulting in the loss of approximately 7% of all Bitcoins in circulation. The market value of Bitcoins lost in the Mt. Gox failure was estimated to be between $450 million USD and $500 million USD as of the date of the exchange's Japanese bankruptcy filing.[34] Although the cause of the Mt. Gox failure is not yet entirely clear, it appears to be due in part to repeated, undetected (or at the least, undisclosed) security breaches and the failure of internal accounting controls, both issues that would be within the scope of regulatory examination authority or oversight were Mt. Gox a regulated financial institution or designated as systemically important. A crisis strategy plan allegedly prepared by Mt. Gox staff and widely circulated on the internet included as a possible response an appeal by Mt. Gox for donations of Bitcoin to be used to repay those whose holdings were wiped out.[35] In the absence of a regulatory regime to make accountholders whole, voluntary measures are the only option in the case of failure of or theft from a Bitcoin exchange or wallet.[36]

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[31] *See, e.g.*, Abrams, R., et al., "Loss of Faith was Death Knell for Mt. Gox," The New York Times (Feb. 28, 2014).

[32] For purposes of Title VIII, a "financial institution" includes "any company engaged in activities that are financial in nature or incidental to a financial activity" as described in Section 4 of the Bank Holding Company Act of 1956. Dodd-Frank § 803(5)(A)(x). The Bank Holding Company Act vests the Board with authority to designate activities that are "financial in nature or incidental to such financial activity," and the Board has undertaken this authority through Regulation Y. Regulation Y defines such activities broadly – perhaps broadly enough to include certain virtual currency industry participants.

[33] *See, e.g.,* Testimony of Federal Reserve Chair Janet Yellen to the Senate Banking Committee on February 27, 2014, stating that "the Federal Reserve simply does not have the authority to supervise or regulate Bitcoin in any way." It should be noted that Bitcoins are also exchanged for fiat currency in loosely organized face-to-face meetups and open-outcry exchanges. With respect to such exchanges, it is unlikely that there is any entity to regulate.

[34] Takemoto, Y. et al, "Mt. Gox Files for Bankruptcy; Hit with Lawsuit," Reuters (Feb. 28, 2014)

IV. Securities and Commodities Regulation Issues

a. Regulation of Virtual Currencies under the Securities and/or Commodities Laws

U.S. securities and commodities regulators have not yet determined which, if any, federal financial regulatory scheme should apply to virtual currencies, such as Bitcoin. There are several aspects of virtual currency trading and different types of entities involved in the creation and trading of virtual currencies that could be subject to appropriate regulation, particularly with a view to protecting investors in such products. In order to determine which regulatory scheme best fits the virtual currency trading model, however, one needs to determine whether a virtual currency itself is a security, a commodity, a currency, or none of the above. Once that determination is made, the resulting regulatory scheme can be applied, perhaps with some appropriate modifications, to the persons creating, effecting trades for their own and others' accounts, operating exchanges, and clearing and settling trades in those virtual currencies.

i. Regulation of Virtual Currency Under the Federal Securities Laws

The U.S. Securities and Exchange Commission ("SEC") has made no official pronouncement as to what virtual currency (as a product) is from a securities law perspective and has adopted no rules relating to the trading of virtual currency. Nevertheless, the SEC is currently addressing that issue in connection with its enforcement program and in connection with the proposed creation of listed securities based on Bitcoin.

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[35] The events immediately preceding the Mt. Gox collapse are described in a variety of media reports, including "Bitcoin Mass Hysteria: The Disaster that Brought Down Mt. Gox," by Forbes.com's John Kelleher (Feb. 28, 2014), *available at* http://www.forbes.com/sites/investopedia/2014/02/28/bitcoin-mass-hysteria-the-disaster-that-brought-down-mt-gox/. Kelleher's account contains a quotation from the CEO of Mt. Gox attesting to the general accuracy of the crisis strategy draft, as well as a link to the leaked document.

[36] It is unlikely that exchanges that accept and maintain fiat currency accounts would be deemed to be taking deposits for purposes of U.S. banking laws, as (i) most exchanges that engage in such activity use a bank custodian model and (ii) most virtual currency exchanges are either located outside the U.S. and/or have established banking relationships with non-U.S. depository institutions.

A. Regulation of Virtual Currency as a Security

Section 3(a)(10) of the Securities Exchange Act of 1934 (the "Exchange Act") defines a security as including, among other things, notes, investment contracts, and certificates of deposit for securities, but it explicitly excludes "currency" from the definition of a security. If a Bitcoin is not a "currency" as that term is intended to be used in connection with this provision,[37] it is possible that a Bitcoin could be a security as an "investment contract" under the factors set forth by the Supreme Court in SEC v. Howey Co.[38] and its progeny.[39] Basically, to be an "investment contract" under the Howey Test, there must be (i) an investment of money, (ii) in a common enterprise, (iii) with an expectation of profit, (iv) from the essential managerial efforts of others. An argument can be made that a purchase or sale of a unit of virtual currency constitutes the purchase or sale of a security under the Howey Test due to the structure of the virtual currency market. However, some of the factors in the Howey Test may be difficult to establish for Bitcoin, since, for example, there is no identifiable promoter or issuer of Bitcoin,[40] and because Bitcoin may be used to purchase goods and services such that a particular purchase of a Bitcoin may not be made with an expectation of profit.

In 2013 the SEC brought a fraud action against Bitcoin Savings & Trust (BTCST) and its president arising out of an alleged Ponzi scheme in which investors gave Bitcoins to BTCST to trade on their behalf, in exchange for a purported 7% weekly return.[41] The defendants argued that, because they dealt with Bitcoins only, and investors provided them with their Bitcoins, there was never an investment of *money* in BTCST, so there was no investment contract present under the Howey Test. On the other hand, the SEC argued that investments of Bitcoins into BTCST were "both investment contracts and notes, and thus, are securities." The judge in that case agreed with the SEC, finding that "Bitcoin is a currency or form of money, and investors wishing to invest in BTCST provided an investment of money" under the Howey Test. Notably, however, the court in this case did not find that a Bitcoin itself is a security.

Even though it is possible that a Bitcoin could be found to be a security, that conclusion may not be a practical one if Bitcoin and other virtual currencies are going to become more broadly used as a means of payment for goods and services. Indeed, some international regulators have found that virtual currencies constitute either commodities or a form of currency, and FinCEN has determined that sellers/transferors/converters of virtual currency must register as money services businesses, but no U.S. or international regulator has determined that a unit of virtual currency is a security. Nevertheless, the SEC does not need to find that a unit of virtual currency itself is a security to exert some authority in the virtual currency arena. In fact, as discussed in the following section, under the anti-fraud provisions of the federal securities laws, the SEC currently has jurisdiction over investment programs involving Bitcoin and other virtual currencies.

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[37] As already noted, some countries have rejected the notion that Bitcoin is a currency, on the basis that there is no "issuer" backing the product.

[38] 328 U.S. 293 (1946).

[39] These factors are referred to herein as the "Howey Test".

[40] For instance, a team of core developers, led by developers allegedly appointed by Satoshi Nakamoto, has a leadership role in proposing changes to the Bitcoin protocol. However, that team has no authority to force the Bitcoin community to accept such changes. Bitcoin transactions occur over a peer-to-peer network, but the actual identities of the persons or entities who operate the nodes that constitute the network may not be readily identifiable.

[41] *See* Magistrate's August 6, 2013 memorandum decision in SEC v. Trendon T. Shavers and Bitcoin Savings and Trust, Case 4:13-cv-00416-RC-ALM (E.D. Tex.).

B. Regulation of Investment Programs in Virtual Currency

Even if a unit of virtual currency itself is not a security, an investment in a virtual currency or in a program involving virtual currency may constitute a security as an "investment contract" under the Howey Test. In this regard, while various depository institution products, such as certificates of deposit, generally are not securities, investment programs involving such products can involve the purchase or sale of a security.[42] The same principle would apply to virtual currency.

The SEC currently has the ability to bring enforcement actions against persons for violating the securities laws in connection with investments in virtual currencies, and, in fact, already has done so. As noted above, the SEC brought an enforcement action against a purported Bitcoin trading operation and its founder for defrauding investors in a Ponzi scheme involving purported investments in Bitcoins. In that action, the court found that internet-traded Bitcoins are a form of currency and their investment with the trading entity was subject to federal securities laws. Apparently, the SEC views virtual currency trading schemes as the next generation of "prime bank" schemes, and has even issued an Investor Alert warning investors about Ponzi schemes involving virtual currency.[43]

If a virtual currency investment program is deemed a security, then persons who facilitate such investments could be required to register as securities broker-dealers under the Exchange Act.[44] As registered broker-dealers (and/or registered associated persons of registered broker-dealers), these securities intermediaries would be subject to all applicable Exchange Act rules and regulations and the rules of any self-regulatory organizations of which they are members, including sales practice and other conduct rules, net capital requirements, segregation of customer funds and securities from proprietary funds and securities, various disclosure rules, and many, many more. If these persons are exempt from federal broker-dealer registration, they may be subject to applicable state registration.[45]

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[42] *See* Gary Plastic Packaging Corp. v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 756 F.2d 230 (2d Cir. 1985) (Brokerage firm's investment program in which firm would screen and offer negotiable, insured and liquid CDs for customers, monitor the creditworthiness of the issuing banks, and maintain a secondary market for the CDs constituted a security).

[43] *See* SEC Office of Investor Education and Advocacy, "Investor Alert: Ponzi Schemes Using Virtual Currencies" (SEC Pub. No. 153 (7/13)).

[44] *See* Exchange Act §15(a). This also could affect some entities operating as virtual currency exchanges, but which actually may be operating more like securities brokers than exchanges.

[45] For example, a broker whose business is exclusively intrastate is exempted from federal registration, but may be subject to registration in the state in which it is located.

C. Regulation of Virtual Currency-based Derivative Securities

Several entities are either offering, or seeking to offer, investment products based on virtual currencies to investors in the U.S. If these derivative products are recognized as securities, they would be regulated as such, and their sponsors/advisors/sellers also would be regulated under applicable existing securities laws and rules.

For example, the Bitcoin Investment Trust ("BIT"), launched in 2013, is a private, open-ended trust that is invested exclusively in Bitcoins and derives its value solely from the price of Bitcoins.[46] According to its marketing materials, investors in BIT gain exposure to Bitcoin price movements without the challenges of buying, storing and safekeeping Bitcoins. BIT is sponsored by Alternative Currency Asset Management, a wholly-owned subsidiary of SecondMarket Holdings, Inc. and an affiliate of SecondMarket, Inc.[47] Just like any other interests in a private fund, shares in BIT are considered securities, and are regulated as such.

Similarly, the SEC is currently considering the registration statement for the Winklevoss Bitcoin Trust (a proposed Bitcoin-based exchange-traded fund ("ETF")), the shares of which would, if approved, trade on a national securities exchange.[48] Among the complex issues to be considered by the SEC in connection with the proposed ETF are whether the proposed ETF shares should be treated as securities and whether the trading of Bitcoin-based instruments on a securities exchange poses additional risk to the national clearance and settlement system. As with interests in private funds investing in Bitcoins, if these virtual currency-based derivative products are found to be securities, they should be treated as such from a regulatory standpoint, no matter how U.S. regulators ultimately decide to categorize the underlying virtual currency.

ii. Regulation of Virtual Currencies as Commodities

Section 1a(9) of the Commodity Exchange Act broadly defines a "commodity" as including, among other things, all "goods and articles, ... and all services, rights, and interests ... in which contracts for future delivery are presently or in the future dealt in." Units of virtual currency arguably meet this definition.

Some regulators and participants in the virtual currency arena treat virtual currencies, including Bitcoins, as commodities. For example, Finnish regulators concluded that units of virtual currency are commodities, not currencies or payment instruments under Finnish law, because there is no responsible issuer for the instrument.[49] Similarly, in its registration statement for its proposed Bitcoin-based ETF (not yet approved by the SEC and discussed above), the Winklevoss Bitcoin Trust takes the position that the Bitcoins underlying the ETF are commodities. Furthermore, Russia's apparently unregulated ICBIT exchange trades Bitcoin futures contracts in the same way that it trades other commodity futures. Its trades are U.S. dollar-denominated, and traders apparently can exchange Bitcoins into dollars or other commodities, like gold, through the exchange. U.S. regulators, including the Commodity Futures Trading Commission ("CFTC"), however, have not yet determined whether units of virtual currency can be considered commodities.

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[46] *See* http://www.bitcointrust.co/.

[47] In fact, in early March of 2014, SecondMarket's board of trustees approved a proposal to spin off BIT and commit $20 million in cash to launch a New York-based regulated Bitcoin exchange. *See* Brokaw, A., "SecondMarket Moves Forward with Bitcoin Exchange, Securing Board Approval," Minyanville.com (Mar. 5, 2014). Media reports further indicate that SecondMarket wants this new company to act like a self-regulatory organization (similar to the Financial Industry Regulatory Authority, Inc. ("FINRA"), the only registered national securities association). *See* Wile, R., "The First Fully American Bitcoin Exchange Network is Now in the Works," Business Insider.com (Feb. 25, 2014).

[48] The original registration statement was filed in July 2013, and has been amended twice, first in October 2013 and more recently on February 19, 2014.

If units of virtual currency are deemed to be a commodity, the purchase or sale of futures and options on units of virtual currency in the U.S. would most likely need to be conducted on a registered futures exchange, and entities trading them in the U.S. likely also would need to register in some capacity with the CFTC and/or the National Futures Association.[50] Such registration would subject participants in the market for these products to the myriad laws and regulations applicable to commodities pool operators, commodities trading advisers, introducing brokers, and the like, and investors in those products would have some regulatory protections. In fact, in the wake of the Mt. Gox bankruptcy, the CFTC is looking into whether it should regulate Bitcoin exchanges in the U.S. as commodities exchanges.[51]

If, on the other hand, it is determined by the CFTC that units of virtual currency are not a commodity, but instead constitute a currency or something else, transactions involving futures and options on units of virtual currency would not be subject to CFTC jurisdiction. In that event, unless another regulatory scheme applied (e.g., the federal securities laws or applicable state regulation), virtual currency exchanges could continue to operate in a largely unregulated manner, as some foreign exchange trading platforms do today.

b. Possible Regulation of Virtual Currency Exchanges

i. Registration of Virtual Currency Exchanges

As noted, virtual currency exchanges exist in numerous countries around the world, and they are largely unregulated. In the U.S., existing virtual currency trading platforms, if they are regulated at all, may be subject (often voluntarily) to a variety of different regulations. For instance, CampBx, an Atlanta-based Bitcoin trading platform, purports to maintain compliance with the State of Georgia – Department of Banking and Finance and Department of Treasury regulations. Similarly, CoinX, an Atlanta-based digital currency exchange through which customers can buy, sell and trade Bitcoins (and which supports conversions of Bitcoins into U.S. dollars), is registered with FinCEN, claims to comply with BSA requirements, and holds money transmitter licenses in multiple states. SecondMarket has asserted that its planned New York-based virtual currency exchange, referenced above, will be regulated, most likely by the New York State Department of Financial Services, which, as noted above, recently announced that it will accept proposals from firms seeking to set up virtual currency exchanges and will work with the firms to ensure that they adhere to cybersecurity and anti-money laundering rules.[52] Likewise, Coinsetter, a New York-based trading platform for Bitcoins that currently appears to be unregulated, likely would become subject to any regulatory scheme New York adopts.[53]

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[49] Norway also has deemed virtual currency a non-currency.

[50] Even if Bitcoin is deemed a commodity, however, the CFTC would have jurisdiction only over the trading of Bitcoin derivatives, and not transactions in Bitcoins themselves.

[51] *See,* "US watchdog CFTC considering Bitcoin regulation," Reuters (Mar. 12, 2014), *available at* http://gadgets.ndtv.com/internet/news/us-watchdog-cftc-considering-bitcoin-regulation-494570.

In light of the increased interest in and use of virtual currency for both payment transactions and for investment purposes, the volatility in the market for virtual currency (particularly Bitcoin), and recent events that demonstrate the need to protect market participants against unauthorized access to electronic systems and accounts, subjecting virtual currency exchanges to some form of registration requirement is advisable. In whatever form it takes, a virtual currency exchange registration system should be designed to bring more stability and more customer protections to virtual currency-related transactions than exists today.

As noted above, if the product being traded is determined to be a security or a commodity future or option, the existing registration regimes under the Securities Exchange Act or the Commodities Exchange Act would apply to virtual currency exchanges trading those products. The costs and other burdens relating to registration as a securities or commodities exchange under existing laws and rules, however, may negatively affect the willingness of virtual currency platform operators to continue to trade in virtual currency products and the willingness of miners to create new virtual currency units. For this reason, even if the virtual currency products traded are deemed to be securities or commodities, it may nevertheless be advisable to create a new registration regime for virtual currency exchanges, under the jurisdiction of the SEC or CFTC, as applicable, that is less burdensome than full registration but that still provides important investor protections.[54]

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[52] *See, e.g.,* Zeitlin, B., "New York State Opens Up to Bitcoin Exchanges," Buzzfeed Business (Mar. 11, 2014).

[53] Interestingly, many virtual currency exchanges do not appear to limit their activities to those typically performed by exchanges. Instead, they may not only provide a platform for trading virtual currency, but also may provide custodial services to traders and customers, act as transfer agent in recording the transfer of ownership of virtual currency (such as recording a transfer of a particular Bitcoin through the blockchain), and clear and settle virtual currency trades effected through their systems. As a result, current regulatory regimes for securities and commodities exchanges, in which different types of registered entities perform these various functions, may not fit well to the business of virtual currency exchanges. On the other hand, it may be advisable to limit the types of activities and functions such exchanges can perform. For instance, one existing unregistered virtual currency exchange advertises that it will be offering customers the ability to earn interest on the Bitcoins those customers deposit with the exchange at an attractive rate. In this regard, the exchange could be seen as offering a security (an investment contract) to its customers. This type of activity could be more appropriately regulated through a broker-type registration regime (whether securities or commodities), which is more heavily focused on customer protection than are regulations relating to traditional exchanges.

[54] As an example, the SEC has devised a registration regime for alternative trading systems (ATSs) that serves as an alternative to registration as a national securities exchange. *See* Regulation ATS, 17 C.F.R. §§ 242.300-303.

On the other hand, if the product being traded is neither a commodity future nor a security, neither of these existing federal regulatory regimes would apply. In that case, a new, uniform or coordinated registration regime, perhaps borrowing from the existing regulatory regimes in a way that would not unnecessarily stifle innovation with respect to virtual currencies or their legitimate uses, would need to be devised and implemented. As noted above, financial regulators in Texas, New York, and Washington have all stated that entities that facilitate certain transactions in virtual currency may be subject to state licensing or registration requirements. Instead of having individual states create separate and potentially divergent regulatory regimes for virtual currency exchanges, however, the development of a single, uniform national standard that can be adopted and implemented by the various states would be more practical, considering the increasing popularity of transactions involving virtual currency, and would preclude forum-shopping.[55] Furthermore, regulating virtual currency exchanges also could promote more efficient clearing of virtual currency transactions (although in light of current events, we recognize that it may also result in an increase in risk to the clearance and settlement system if these instruments are brought within it).

Uniform registration of virtual currency exchanges, with all it would entail, could significantly reduce investor risk. States could, for example, impose (i) rules for trading on virtual currency exchanges, (ii) conduct rules on market participants (including the preclusion of so-called "bad actors" from the industry) and mandatory risk disclosures (discussed below), (iii) limitations on the amount of leverage that can be used in connection with virtual currency transactions, and (iv) capital requirements on virtual currency brokers and dealers, as well as other important investor protections. Importantly, registration could impose requirements for the protection of customer assets and financial information, and requirements regarding appropriate responses to actual and attempted systems and data breaches.[56] Regulators also should consider whether operators of these exchanges should be required to acquire fidelity bonds (particularly if they are custodian to their customers' assets) or otherwise develop some type of insurance fund to protect customers in case of the exchange's failure.

If state-level regulation ultimately becomes the primary tool for protecting investors and virtual currency accountholders, facilitating information-sharing by state regulators and access to information by consumers and investors should also be a key consideration. A large number of U.S. states currently participate in the National Mortgage Licensing System ("NMLS"), a web-based utility operated by the Conference of State Banking Supervisors' State Regulatory Registry, through which participating states and the federal government administer certain individual and corporate mortgage lending licenses. The functionality available within NMLS has recently been expanded to permit states to utilize the system to administer licensing of payday lenders, money transmitters, check cashers, and other types of consumer financial service providers.[57] NMLS provides access to both consumers and regulators, enabling regulators easily to verify an entity's status in other states and consumers to see that the entity with which they are doing business is properly registered. The existing NMLS infrastructure could be expanded to include licensure of virtual currency market participants, thereby providing a useful tool for regulators and consumers alike.

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[55] For instance, in the absence of a uniform standard, virtual currency exchanges may choose to locate in jurisdictions imposing the least restrictive registration regime.

[56] As an example, see the SEC's proposed Regulation Systems Compliance and Integrity ("Regulation SCI"), set forth in SEC Release No. 34-69077 (Mar. 8, 2014), 78 FR 18084 (Mar. 25, 2013).

[57] The State Regulatory Registry's 2012 Annual Report provides additional information regarding NMLS and the expansion of the system to incorporate non-mortgage license types. *See* http://www.csbs.org/srr/Documents/SRR_2012_AR.pdf.

ii. Customer Protection in the Event of Failure of Virtual Currency Exchanges

As noted above, virtual currency exchanges often do not limit their activities to traditional exchange functions. For example, users that regularly purchase virtual currency or that speculate in virtual currency often keep fiat currency in an account held by a virtual currency exchange. The exchange may also offer wallet functionality and store private keys. Finally, in some investment-oriented exchanges, the exchange remains the record owner of the purchased virtual currency. As a result, the failure of an exchange or the bad acts of an exchange's employees (or even third parties) can result in the loss of fiat currency held by the exchange and the loss of access to virtual currency purchased through the exchange. This possibility has been borne out by recent events.

In the case of an exchange failure or other event resulting in customer losses, no mechanism currently exists to make the exchange's customers whole, other than litigation. Unlike bank deposit insurance provided by the FDIC in case of a bank failure or insurance provided by the Securities Investor Protection Corporation ("SIPC") to brokerage customers in case of the collapse of a brokerage firm, there is no insurance fund that can be used to help protect Bitcoin exchange customers from any sort of loss.[58] Although the virtual currency community has occasionally made efforts to make users whole in the event that an exchange fails, such efforts are irregular and voluntary.

While virtual currency market participants may eventually develop an insurer similar to the FDIC or SIPC, or may even be able to obtain insurance coverage from private insurers in a more de-centralized fashion, in the absence of a meaningful insurance fund, regulators should ensure that consumers and others engaging in transactions on virtual currency exchanges receive adequate warnings of the risks involved in that activity (e.g., that trading in virtual currency products on an exchange is unregulated and risky, and may result in the loss of the consumer's investment), similar to disclosures required for penny stocks[59] or even the Surgeon General's warning regarding use of tobacco products. As became evident after the demise of Mt. Gox, many virtual currency market participants were not aware that the virtual currency market was largely unregulated, and may have assumed that Mt. Gox was subject to the type of insurance requirements or safety and soundness oversight applied to traditional financial system participants. A mandatory risk disclosure requirement would enable consumers to determine for themselves whether participating in the virtual currency market is appropriate given their personal circumstances.

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[58] SIPC, a non-profit corporation in which most registered brokers must be members, is funded by assessments based on the net operating revenue of its members. SIPC maintains a fund to provide compensation (up to certain limits) to investors whose cash and securities are lost when a broker fails and has authority to manage the transfer of accounts of a failing broker to another institution. SIPC only handles liquidations, however, and does not regulate, investigate or discipline its member broker-dealers. The success of SIPC is grounded in its underlying statutory mandate and ability to borrow against the U.S. Treasury in the event that the fund is exhausted. In addition, SIPC is subject to SEC oversight. Absent that regulatory support, the strength of any SIPC-type organization for virtual currency market participants is likely to be limited. In any event, the development of such an insurer for virtual currency transactions is no small undertaking and, even if Congress and federal regulators decide to move in that direction, its creation and implementation would take a considerable amount of time.

[59] *See*, e.g., Schedule 15G under the Exchange Act.

CONCLUSION

The growth of virtual currency systems is expanding consumers' choice of payment methods and fostering national and international investment in the development of new payment systems technologies. However, holding or engaging in transactions in convertible virtual currencies, such as Bitcoin, involves a variety of significant risks. Virtual currency valuations historically have been highly volatile, providers of virtual currency services (such as wallets and exchanges) are not required to make disclosures about the risks to holding or transacting in virtual currencies, and the virtual currency marketplace is not currently subject to any of the consumer or investor protections that apply to similar transactions or investments involving other payment or asset types.

This white paper has described certain of the risks faced by consumers and others that hold or transact in convertible virtual currencies, and has evaluated certain ways in which U.S. regulatory authorities may consider regulating virtual currency transactions, products and marketplace participants based on their functional similarity to other transactions, products and marketplace participants that are regulated. The failure of Mt. Gox earlier this year, and the value that may have been irretrievably lost in connection with that failure, serves as a perfect backdrop for this white paper. The aggregate number and value of virtual currency transactions and holdings in the U.S. is small relative to most other regulated payments transactions and trading markets. However, the emerging nature of the virtual currency marketplace creates an opportunity to develop and implement a regulatory framework to mitigate risk to consumers and others without unduly burdening innovation and while the structure of the marketplace remains malleable.

The Clearing House

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ICBA

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ICBA members operate 24,000 locations nationwide, employ 300,000 Americans and hold $1.3 trillion in assets, $1 trillion in deposits and $800 billion in loans to consumers, small businesses and the agricultural community. For more information, visit www.icba.org.

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Monday, June 30, 2014 3:16 PM
To: david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; stephanie.korkor@dfs.ny.gov; khagler@dbf.state.ga.us; Rumberger, Jennifer@DBO; deb.bortner@dfi.wa.gov; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; rick.riccobono@dfi.wa.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; maria.filipakis@dfs.ny.gov; Dana.syracuse@dfs.ny.gov; Nishikawa, Marilyn@DBO
Cc: Derek Schultz; Michael Stevens; John Ryan; Buz Gorman; Chuck Cross; Jeanette Barraza; Margaret Liu; Matt Lambert; Mary Simonds; Natalie McGarry
Subject: CSBS Emerging Payments Task Force - Industry Meetings in San Francisco, July 24

TO : EMERGING PAYMENTS TASK FORCE

I wanted to confirm that we have scheduled meetings the afternoon of July 24 in San Francisco for task force members to meet with virtual currency and other payment companies. As mentioned previously, these will be small group meetings -- the first meeting will start at 1:30 pm and the second at 3:30 pm, with the plan to wrap up at 5:00 pm. The meetings will be downtown, possibly at the Hyatt Embarcadero. Companies confirmed include:

We also are working on a few other companies. We will send additional information within a few days.

If you haven't done so, please let me know if you will attend. From previous discussions, the following Task Force members have indicated that they will attend:

-David Cotney
-Deb Bortner (for Scott Jarvis)
-Ed Leary
-REDACTED

Thanks,

MCL

Margaret C. Liu
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mliu@csbs.org
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(m) 202.368.1498

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Tuesday, July 01, 2014 8:08 AM
To: Owen, Jan Lynn@DBO
Cc: Mirrashidi, Lila@DBO; Nishikawa, Marilyn@DBO; Jeanette Barraza; Matt Lambert; Mary Simonds
Subject: California AB 129; SVB

Hi Jan,

We are finalizing the agenda for tomorrow's task force call, and I have a few questions for you:

First, I think that the task force would be interested in hearing about the bill just signed in to law in California (AB 129). Do you want to have someone from your staff do that or should CSBS staff plan to brief on the bill. Let us know what works for you.

Second, and unrelated, I wanted to see if your office had heard back from Just trying to nail things down for the July 24 meeting. Let us know if there is anything that we should be doing to follow up.

Thanks,

MCL

REDACTED

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McQuinn, Michael@DBO

From:	Owen, Jan Lynn@DBO
Sent:	Tuesday, July 01, 2014 9:29 AM
To:	Margaret Liu
Cc:	Mirrashidi, Lila@DBO; Nishikawa, Marilyn@DBO; Jeanette Barraza; Matt Lambert; Mary Simonds
Subject:	RE: California AB 129; SVB

Margaret: We continue to try and get with we are trying again this morning. I will discuss AB 129 at the meeting. Thank you. Jan

Jan Lynn Owen
Commissioner
California Department of Business Oversight
1515 K Street Suite 200
Sacramento, California 95814
916-324-9011

www.dbo.ca.gov

From: Margaret Liu [mailto:MLiu@csbs.org]
Sent: Tuesday, July 01, 2014 8:08 AM
To: Owen, Jan Lynn@DBO
Cc: Mirrashidi, Lila@DBO; Nishikawa, Marilyn@DBO; Jeanette Barraza; Matt Lambert; Mary Simonds
Subject: California AB 129; SVB

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Second, and unrelated, I wanted to see if your office had heard back from REDACTED Just trying to nail things down for the July 24 meeting. Let us know if there is anything that we should be doing to follow up.

Thanks,

MCL

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McQuinn, Michael@DBO

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Tuesday, July 01, 2014 10:02 AM
To:	Owen, Jan Lynn@DBO
Cc:	Mirrashidi, Lila@DBO; Nishikawa, Marilyn@DBO; Jeanette Barraza; Matt Lambert; Mary Simonds
Subject:	RE: California AB 129; SVB

thanks! We appreciate the help.
MCL

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From: Owen, Jan Lynn@DBO [mailto:JanLynn.Owen@dbo.ca.gov]
Sent: Tuesday, July 01, 2014 12:30 PM
To: Margaret Liu
Cc: Mirrashidi, Lila@DBO; Nishikawa, Marilyn@DBO; Jeanette Barraza; Matt Lambert; Mary Simonds
Subject: RE: California AB 129; SVB

Margaret: We continue to try and get with [redacted] we are trying again this morning. I will discuss AB 129 at the meeting. Thank you. Jan

Jan Lynn Owen
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From: Margaret Liu [mailto:MLiu@csbs.org]
Sent: Tuesday, July 01, 2014 8:08 AM
To: Owen, Jan Lynn@DBO
Cc: Mirrashidi, Lila@DBO; Nishikawa, Marilyn@DBO; Jeanette Barraza; Matt Lambert; Mary Simonds
Subject: California AB 129; SVB

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Second, and unrelated, I wanted to see if your office had heard back from REDACTED Just trying to nail things down for the July 24 meeting. Let us know if there is anything that we should be doing to follow up.

Thanks,

MCL

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Effective July 1, 2013, the Department of Corporations and the Department of Financial Institutions merged to form the Department of Business Oversight in accordance with the Governor's reorganization of state departments to provide services more efficiently and effectively.

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McQuinn, Michael@DBO

From: Margaret Liu <mliu@csbs.org>
Sent: Tuesday, July 01, 2014 10:09 AM
To: Owen, Jan Lynn@DBO
Subject: CSBS Emerging Payments Task Force Call Reminder

If this email does not display properly, please view our online version.

TO: Emerging Payments Task Force

The CSBS Emerging Payments Task Force will hold its monthly call on **Wednesday, July 2 at 3:30 pm EDT, 2:30 pm CDT, 1:30 pm MDT, and 12:30 pm PDT**.

Access Instructions:

Click here to add this to your Outlook calendar.
Dial: 1-888-827-6040
Participant Passcode: REDACTED

Agenda:

1. Takeaways from May 16 public hearing (Attached is a staff document outlining takeaways)

2. Task Force meetings with industry San Francisco Meeting on July 24

3. Debrief and feedback from FinCEN webinar (Attached is the presentation meant for regulators only)

4. Debrief from Federal Reserve Payment System Improvement Town Hall meetings (Attached is the presentation and discussion questions)

5. Other outreach with federal agencies

6. Alternative Currency - CA AB 129 update

Please do not hesitate to contact Jeanette Barraza (202-728-5708, JBarraza@csbs.org) or me if you have any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
[redacted]

202.728.5749 I 202.368.1498 (c)

[redacted]

Click here if you prefer not to receive any further email from CSBS.

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Tuesday, July 01, 2014 11:53 AM
To: Owen, Jan Lynn@DBO
Subject: Reminder- CSBS Legislative Committee Monthly Call -- Monday, July 7, at 3:00 pm EDT

If this email does not display properly, please view our online version.

TO: Commissioners, Deputies, and Legislative Contacts

As a reminder, the Legislative Committee call normally scheduled for Thursday, July 3 at 3:00 EDT has been moved to **Monday, July 7th at 3:00 pm EDT, 2:00 pm CDT, 1:00 pm MDT, and 12 noon PDT.**

Access Instructions:

Click here to add this to your Outlook calendar
Dial: 1-888-827-6040
Participant Passcode: REDACTED

Agenda:

1. Update on SAFE Act Fix (H.R. 4626)
2. Operation Chokepoint Legislation (H.R. 4986) introduced by Rep. Luetkemeyer (R-MO)
3. Summary of various CFPB reform bills
4. House Financial Services Committee updates
5. Senate Banking Committee updates
6. Currency legislation at state level. For example, California passed a recent bill http://leginfo.ca.gov/pub/13-14/bill/asm/ab_0101-0150/ab_129_bill_20140624_enrolled.htm
7. Open forum

Please do not hesitate to contact Sandy Sussman (202-407-7160,ssussman@csbs.org), Matt Lambert (202-407-7130, mlambert@csbs.org) or me if you have any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel

Conference of State Bank Supervisors

[redacted]

202.728.5749 I 202.368.1498 (c)

[redacted]

Click here if you prefer not to receive any further email from CSBS.

From: Owen, Jan Lynn@DBO
Sent: Wednesday, July 02, 2014 12:38 PM
To: Margaret Liu (MLiu@csbs.org)
Subject: I will be 15 minutes late

For the call.

Jan Lynn Owen
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www.dbo.ca.gov

From: Margaret Liu <MLiu@csbs.org>
Sent: Wednesday, July 02, 2014 12:43 PM
To: Owen, Jan Lynn@DBO
Subject: RE: I will be 15 minutes late

Got it. thx

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From: Owen, Jan Lynn@DBO [mailto:JanLynn.Owen@dbo.ca.gov]
Sent: Wednesday, July 02, 2014 3:39 PM
To: Margaret Liu
Subject: I will be 15 minutes late

For the call.

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www.dbo.ca.gov

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From: Margaret Liu <MLiu@csbs.org>
Sent: Thursday, July 03, 2014 10:06 AM
To: Owen, Jan Lynn@DBO
Subject: EPTF July Call Follow-Ups

If this email does not display properly, please view our online version.

TO: EMERGING PAYMENTS TASK FORCE

Thank you for participating in the July CSBS Emerging Payments Task Force call yesterday. Please find attached a summary of yesterday's call and a copy of the white paper on virtual currency put out by the ICBA and The Clearinghouse that was mentioned during the call.

As mentioned, the Minneapolis Federal Reserve has proposed times on August 14 and 20 for a conference call between the Task Force and for a call with Minneapolis Fed President Narayana Kocherlakota, who chairs the Federal Reserve Bank President's Financial Services Policy Committee. Please indicate your availability by completing the doodle poll here: http://doodle.com/vf8ta26cupam837c.

As discussed yesterday, we are also requesting the Task Force to identify staff for a lawyers' working group on virtual currency to look at state authorities and approaches to licensing virtual currency companies. Please reach out to me with the names and contact information.

Finally, attached is a CSBS staff summary of the San Francisco, Dallas, and New York Federal Reserve Payment System Town Halls.

Please don't hesitate to contact Jeanette (jbarraza@csbs.org or 202-728-5708), Mary (msimonds@csbs.org or 202-803-8095) or me with any questions and have a great Fourth of July.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

From: Margaret Liu <MLiu@csbs.org>
Sent: Monday, July 07, 2014 7:57 AM
To: Owen, Jan Lynn@DBO
Subject: TODAY- CSBS Legislative Committee Monthly Call -- Monday, July 7, at 3:00 pm EDT

If this email does not display properly, please view our online version.

TO: Commissioners, Deputies, and Legislative Contacts

As a reminder, the Legislative Committee call normally scheduled for Thursday, July 3 at 3:00 EDT will be held today, **Monday, July 7th at 3:00 pm EDT, 2:00 pm CDT, 1:00 pm MDT, and 12 noon PDT.**

Access Instructions:

Click here to add this to your Outlook calendar
Dial: 1-888-827-6040
Participant Passcode: REDACTED

Agenda:

1. Update on SAFE Act Fix (H.R. 4626)
2. Operation Chokepoint Legislation (H.R. 4986) introduced by Rep. Luetkemeyer (R-MO)
3. Summary of various CFPB reform bills
4. House Financial Services Committee updates
5. Senate Banking Committee updates
6. Currency legislation at state level. For example, California passed a recent bill http://leginfo.ca.gov/pub/13-14/bill/asm/ab_0101-0150/ab_129_bill_20140624_enrolled.htm
7. Open forum

Please do not hesitate to contact Sandy Sussman (202-407-7160,ssussman@csbs.org), Matt Lambert (202-407-7130, mlambert@csbs.org) or me if you have any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel

Conference of State Bank Supervisors

[illegible]

202.728.5749 I 202.368.1498 (c)

[illegible]

Click here if you prefer not to receive any further email from CSBS.

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Tuesday, July 08, 2014 6:18 AM
To:	david.cotney@state.ma.us; greg.gonzales@tn.gov; eleary@utah.gov; scott.jarvis@dfi.wa.gov; stephanie.korkor@dfs.ny.gov; khagler@dbf.state.ga.us; Rumberger, Jennifer@DBO; deb.bortner@dfi.wa.gov; stephen.dunn@state.ma.us; charles.cooper@dob.texas.gov; benjamin.lawsky@dfs.ny.gov; rick.riccobono@dfi.wa.gov; Owen, Jan Lynn@DBO; drew.breakspear@flofr.com; markpeterson@utah.gov; nicole.jacoby@dfs.ny.gov; Amy.mceachin@flofr.com; maria.filipakis@dfs.ny.gov; Jamie.Mongiovi@flofr.com; Dana.syracuse@dfs.ny.gov; Nishikawa, Marilyn@DBO
Cc:	Michael Stevens; John Ryan; Buz Gorman; Chuck Cross; Jeanette Barraza; Margaret Liu; Matt Lambert; Derek Schultz; Mary Simonds; Natalie McGarry
Subject:	Conference Call with Minn Fed President Kocherlakota -- action requested

TO : EPTF MEMBERS

We are trying to nail down a date for the conference call with Dr Kocherlakota, President of the Minn Fed and Chair of the Reserve Banks' Financial Services Policy Committee. If you have not had a chance to complete the scheduling poll http://doodle.com/vf8ta26cupam837c3iy3dwzr/admin#table please do as soon as possible.

Thank you.

Margaret C. Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
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mliu@csbs.org
(o) 202.728.5749
(m) 202.368.1498

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Wednesday, July 09, 2014 10:35 AM
To: Owen, Jan Lynn@DBO
Subject: EPTF Upcoming Calls

If this email does not display properly, please view our online version.

TO: EMERGING PAYMENTS TASK FORCE

We have scheduled two upcoming calls for the Emerging Payments Task Force.

- Friday, July 18 at 3:00pm ET to prep for the July 24 meetings in San Francisco. While the purpose of this call is to prepare for the July 24 meeting, all Task Force members are welcome to join. Click here to add this event to your calendar.
- Wednesday, July 30 at 3:30 pm ET for the monthly Task Force Call. Click here to add this event to your calendar.

CSBS will send a reminder email along with an agenda and necessary materials prior to each call.

Please don't hesitate to me or Mary Simonds (msimonds@csbs.org or 202-803-8095) with any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 | 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

From: Margaret Liu <MLiu@csbs.org>
Sent: Friday, July 11, 2014 12:19 PM
To: Owen, Jan Lynn@DBO
Subject: Update: Community Bank or Community Bank Supervisory Experience on Federal Reserve Board

If this email does not display properly, please view our online version.

TO: Commissioners, Deputies and Legislative Contacts

As you know, CSBS has been advocating that the Federal Reserve Board needs to include individuals with experience supervising or working in community banks. Next week, the Senate is expected to adopt an amendment offered by Sen. David Vitter (R-LA) that would require the Federal Reserve Board (FRB) of Governors to have one member with demonstrated experience working in or supervising community banks less than $10 billion in assets. The amendmentis expected to be adopted as part of legislation reauthorizing the Terrorism Risk Insurance Act (TRIA).

CSBS has been a strong advocate of ensuring the FRB has Governorswith experience working in or supervising community banks. In the fall, we released a White Paper on the 100-year history of the FRB; and 2) an info-graphic which shows the background and experience of the members of the Board of Governors throughout the FRB's history.

We are pleased by this development and thankful for your advocacy efforts that have maintained momentum on this issue. We will update you as legislative developments warrant.

Please contact Sandy Sussman (ssussman@csbs.org or 202-407-7160) or me if you have any questions.

Thank you.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Friday, July 11, 2014 2:09 PM
To: 'David.Cotney@state.ma.us'; Ed Leary; Owen, Jan Lynn@DBO; 'Jarvis, Scott (DFI) (Scott.Jarvis@dfi.wa.gov)'; 'deb.bortner@dfi.wa.gov'
Cc: John Ryan; Bill Matthews; Chuck Cross; Jeanette Barraza; Mary Simonds; Matt Lambert
Subject: FW: Meeting with Members of CSBS Emerging Payments Task Force -- July 24 at 1:30 pm PDT

Fyi.

Margaret C. Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
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mliu@csbs.org
(o) 202.728.5749
(m) 202.368.1498

From: Margaret Liu
Sent: Friday, July 11, 2014 5:08 PM
To: REDACTED
Cc: Jeanette Barraza; Mary Simonds
Subject: Meeting with Members of CSBS Emerging Payments Task Force -- July 24 at 1:30 pm PDT

On behalf of the CSBS Emerging Payments Task Force, thanks to all of you for taking the time to meet with us in San Francisco later this month.

As we have mentioned to most of you individually, some members of the Task Force will be in San Francisco that week for unrelated meetings with state and federal regulators and we wanted to take advantage of the location to meet with some companies working in the payments space. Our goal with the meetings is to have a dialogue with industry about developments in payments and issues for state regulators to consider as we look into regulatory approaches to payments in general and payments innovations, in particular. We will follow up next week with a detailed agenda. Right now I want to make sure that all of you some basic logistical information.

Date: Thursday, July 24
Time: 1:30 pm to 3:00 pm PDT
Location: San Francisco Marriott Union Square; 480 Sutter Street

For this meeting, the following companies are attending: REDACTED Please confirm for us who from your organizations will be attending.

From the task force, the following state regulators are scheduled to attend: David Cotney, Task Force Chair and Commissioner of the Massachusetts Division of Banks; Ed Leary, Commissioner of the Utah Department of Financial Institutions; Jan Owen, Commissioner of the California Department of Business Oversight; and Deborah Bortner, Director of the Division of Consumer Services with the Washington State Department of Financial Institutions.

Additionally, CSBS staff including myself and John Ryan (our CEO) will be there.

Thanks again and please feel free to contact me or my colleagues Jeanette Barraza or Mary Simonds (both copied on this message) if you have any questions.

Have a nice weekend.

MCL

Margaret C. Liu
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From: Margaret Liu <MLiu@csbs.org>
Sent: Thursday, July 17, 2014 7:28 AM
To: Owen, Jan Lynn@DBO
Subject: EPTF Meeting with Minneapolis Fed

If this email does not display properly, please view our online version.

TO: CSBS EMERGING PAYMENTS TASK FORCE

Thank you for filling out the doodle poll regarding your availability for a call with the Federal Reserve Bank of Minneapolis. Based on the responses Thursday, August 20 from 2-3 ET is the best option for the Task Force. An Outlook calendar invite will be sent from CSBS staff or Minneapolis Fed staff with call in instructions in the next few days.

Please don't hesitate to reach out to me or Mary Simonds (msimonds@csbs.org or 202-803-8095) with questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

From: Margaret Liu <MLiu@csbs.org>
Sent: Thursday, July 17, 2014 2:33 PM
To: Owen, Jan Lynn@DBO
Subject: UPDATE: Senate Approves Adding Community Banking Requirement for Federal Reserve Board

If this email does not display properly, please view our online version.

TO: Commissioners, Deputies and Legislative Contacts

The Senate in a voice vote today approved an amendment to legislation reauthorizing the Terrorism Risk Insurance Act offered by Sen. David Vitter (R-LA) that requires the Federal Reserve Board to have at least one member with experience working in or supervising community banks. The entire bill passed the Senate by a vote of 93-4.

Ensuring the Fed Board has a member with experience working in or supervising community banks is a CSBS priority. Thanks for your help on this issue and we will keep you updated as legislative events warrant.

Please contact me (mliu@csbs.org or (202) 728-5749) or Sandy Sussman (ssussman@csbs.org or 202-407-7160) with any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Thursday, July 17, 2014 2:42 PM
To: Owen, Jan Lynn@DBO
Subject: EPTF Call Reminder & Updates

If this email does not display properly, please view our online version.

TO: EMERGING PAYMENTS TASK FORCE

Prep Call Friday for July 24 Meetings

This is a reminder that the EPTF San Francisco Meeting Prep call will be tomorrow, July 18, from 3-4pm ET. Please click here to add the call to your Outlook calendar. Attached is the agenda for the first and second meeting as well as the company summaries which we will reference during tomorrow's call.

Updates

- The New York State Department Financial Services' today issued proposed regulations for virtual currency activities. The proposed regulations can be accessed here and NYDFS is seeking public comment for 45 days.
- FinCEN's most recent SAR Technical Bulletin (click here to download) notes a rising number of reports flagging virtual currency as a component of suspicious activity. The analysis also highlights the roles of various financial services market participants in observing virtual currency transactions and identifying suspicious activity.

Please reach out to me, Jeanette Barraza (jbarraza@csbs.org or 202-728-5708), or Mary Simonds (msimonds@csbs.org or 202-803-8095) with any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

[illegible]

Click here if you prefer not to receive any further email from CSBS.

From: Margaret Liu <MLiu@csbs.org>
Sent: Tuesday, July 22, 2014 2:10 PM
To: Owen, Jan Lynn@DBO
Subject: EPTF July 24 Industry Meeting Materials

If this email does not display properly, please view our online version.

TO: EMERGING PAYMENTS TASK FORCE

We are looking forward to the Industry Meetings in San Francisco this Thursday and for the opportunity to have an informal dialogue about regulatory approaches and considerations.

We have prepared some meeting materials which can be downloaded by clicking here. Included in the materials is the agenda, company summaries, proposed questions, and background materials which include the hearing takeaways, Federal Reserve town hall summaries, and the briefing memos from the hearing. We will have hard copies of these materials for you at the meeting.

Please don't hesitate to reach out to me, Jeanette Barraza (jbarraza@csbs.org or 202-728-5708), or Mary Simonds (msimonds@csbs.org or 202-803-8095) with any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Tuesday, July 22, 2014 2:37 PM
To:	'David.Cotney@state.ma.us'; Owen, Jan Lynn@DBO; Ed Leary; 'deb.bortner@dfi.wa.gov'; 'rick.riccobono@dfi.wa.gov'
Cc:	John Ryan; Chuck Cross; Bill Matthews; Tiyenne Greene; Mary Simonds; Jeanette Barraza; Nishikawa, Marilyn@DBO
Subject:	EPTF July 24 Meetings -- lunch before and/or dinner after

Hi Folks,
Let me know if you want to meet for lunch prior to the meetings. We can meet at the Union Square Marriott as soon as the Western Regulators mtg wraps up.
Also, let me know if you are available for dinner after. Please copy Mary Simonds and Tiyenne Greene on your replies.
Thanks,
MCL

Margaret C. Liu
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(m) 202.368.1498

From:	Owen, Jan Lynn@DBO
Sent:	Tuesday, July 22, 2014 3:46 PM
To:	'Margaret Liu'; 'David.Cotney@state.ma.us'; 'Ed Leary'; 'deb.bortner@dfi.wa.gov'; 'rick.riccobono@dfi.wa.gov'
Cc:	'John Ryan'; 'Chuck Cross'; 'Bill Matthews'; 'Tiyenne Greene'; 'Mary Simonds'; 'Jeanette Barraza'; Nishikawa, Marilyn@DBO
Subject:	RE: EPTF July 24 Meetings -- lunch before and/or dinner after

Thank you for the invitation- I am not available for either. Jan

Jan Lynn Owen
Commissioner
Department of Business Oversight
1515 K Street Suite 200
Sacramento, California 95814

916-324-9011

www.dbo.ca.gov

From: Margaret Liu [mailto:MLiu@csbs.org]
Sent: Tuesday, July 22, 2014 2:37 PM
To: 'David.Cotney@state.ma.us'; Owen, Jan Lynn@DBO; Ed Leary; 'deb.bortner@dfi.wa.gov'; 'rick.riccobono@dfi.wa.gov'
Cc: John Ryan; Chuck Cross; Bill Matthews; Tiyenne Greene; Mary Simonds; Jeanette Barraza; Nishikawa, Marilyn@DBO
Subject: EPTF July 24 Meetings -- lunch before and/or dinner after

Hi Folks,
Let me know if you want to meet for lunch prior to the meetings. We can meet at the Union Square Marriott as soon as the Western Regulators mtg wraps up.
Also, let me know if you are available for dinner after. Please copy Mary Simonds and Tiyenne Greene on your replies.
Thanks,
MCL

Margaret C. Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors
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Washington DC 20036
mliu@csbs.org
(o) 202.728.5749
(m) 202.368.1498

From:	Owen, Jan Lynn@DBO
Sent:	Saturday, July 26, 2014 12:52 PM
To:	Margaret Liu
Cc:	jryan@csbs.org; Chuck Cross; Bill Matthews; eleary@utah.gov; David Cotney (DOB); Deborah Bortner; rick.riccobono@dfi.wa.gov
Subject:	A thank you to Margaret, Chuck, Bill and John

for their hard work and commitment to this task force. It is a hard one this issue, and I appreciate their hard work. I also appreciate David's leadership and his willingness to lead this effort for us. I do believe we will get it right!

Thank you all again. Jan

Jan Lynn Owen
Commissioner
California Department of Business Oversight
1515 K Street Suite 200
Sacramento, California 95814
916-324-9011

www.dbo.ca.gov

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Monday, July 28, 2014 7:35 AM
To: Owen, Jan Lynn@DBO
Subject: EPTF July 30 Call Agenda

If this email does not display properly, please view our online version.

TO: EMERGING PAYMENTS TASK FORCE

This is a reminder that the monthly Emerging Payments Task Force call with be on Wednesday, July 30 at 3:30 pm ET. Please click here to add it to your calendar.

Agenda:

- Industry Meeting Debrief
- NY DFS Proposed BitLicense
    - Click here for proposed regulations
    - Click here for the NY DFS Press Release
- Model Framework

Please don't hesitate to reach out to me, Jeanette Barraza (jbarraza@csbs.org or 202-728-5708), or Mary Simonds (msimonds@csbs.org or 202-803-8095) if you have any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

From:	Margaret Liu <MLiu@csbs.org>
Sent:	Monday, July 28, 2014 1:21 PM
To:	Owen, Jan Lynn@DBO
Subject:	RE: A thank you to Margaret, Chuck, Bill and John

Thanks for the kind words and for your work on the task force.

Margaret C. Liu
Senior Vice President and Deputy General Counsel Conference of State Bank Supervisors
1129 20th Street, NW, Suite 900
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mliu@csbs.org
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(m) 202.368.1498

-----Original Message-----
From: Owen, Jan Lynn@DBO [mailto:JanLynn.Owen@dbo.ca.gov]
Sent: Saturday, July 26, 2014 3:52 PM
To: Margaret Liu
Cc: John Ryan; Chuck Cross; Bill Matthews; eleary@utah.gov; David Cotney (DOB); Deborah Bortner; rick.riccobono@dfi.wa.gov
Subject: A thank you to Margaret, Chuck, Bill and John

for their hard work and commitment to this task force. It is a hard one this issue, and I appreciate their hard work. I also appreciate David's leadership and his willingness to lead this effort for us. I do believe we will get it right!

Thank you all again. Jan

Jan Lynn Owen
Commissioner
California Department of Business Oversight
1515 K Street Suite 200
Sacramento, California 95814
916-324-9011

www.dbo.ca.gov
Effective July 1, 2013, the Department of Corporations and the Department of Financial Institutions merged to form the Department of Business Oversight in accordance with the Governor's reorganization of state departments to provide services more efficiently and effectively.

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From: Margaret Liu <MLiu@csbs.org>
Sent: Monday, July 28, 2014 1:30 PM
To: Owen, Jan Lynn@DBO
Subject: Hill Inquiry re CA and Virtual Currency

Jan,

A Hill staffer that we work with is interested in talking with someone about where CA is going on virtual currency regulation. His name is Andy Green and we works for Senator Jeff Merkley (D-OR). Andy is very supportive of state supervision and has been following virtual currency issues – when David Cotney testified before the Senate Banking Committee last fall, it was because of Andy. He will be in the bay area for other reasons in August.

I know that you and your department are working on this, and it might not be ready for prime time, but wanted to see if you wanted to meet with him. I think it might be worthwhile – but also don't think it is problem if you can't for scheduling or other reasons.

Thanks,

MCL

Margaret C. Liu
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Conference of State Bank Supervisors
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(o) 202.728.5749
(m) 202.368.1498

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Tuesday, July 29, 2014 7:18 AM
To: Owen, Jan Lynn@DBO
Subject: EPTF Call Reminder & Updates

If this email does not display properly, please view our online version.

TO: EMERGING PAYMENTS TASK FORCE

This is a reminder that we are having our monthly call tomorrow from 3:30-4:30 pm ET. Click here to add the call-in details to your calendar.

Call Agenda

- Industry Meeting Debrief
- NY DFS Proposed BitLicense
    - Click here for proposed regulations
    - Click here for the NY DFS Press Release
- Model Framework. Staff have drafted a model framework for the Task Force's consideration. This is a very rough draft prepared as a means for structuring the Task Force's discussion. This document draws from various sources, including: a discussion among state regulatory attorneys, the Uniform Money Services Act, public and private discussions with industry, and materials issued by the New York Department of Financial Services, Texas and Kansas.

Additional Updates

- Article from Pew Foundation Publication on state regulatory activities related to virtual currencies. Click here to view. This article discusses the states work on regulating digital currency including the CSBS Emerging Payments Task Force, New York's proposed regulations, the new California legislation, and Texas and Kansas' recent regulatory guidances.
- Draft Armored Car Guidance. The Financial Crimes Enforcement Network ("FinCEN") has requested input from CSBS on the draft guidance developed to clarify the application of FinCEN regulations to certain common carriers, including armored car services. In 2011, FinCEN expanded the definition of a money transmitter to include a number of different business entities. This draft guidance identifies various activities of common carriers, including armored car services, that meet the federal definition of a money transmitter and therefore must comply with Bank Secrecy Act and Anti-Money Laundering Requirements for Money Services Businesses (MSBs). FinCEN is particularly interested in state regulators' perspectives on applicability to state agencies and their licensees. Please provide any comments to to Jeanette Barraza at jbarraza@csbs.org no later than Wednesday July 30th. PLEASE NOTE: This is draft guidance and should not be used or published

as it has not been finalized.

Please don't hesitate to reach out to me, Jeanette Barraza (jbarraza@csbs.org or 202-728-5708), or Mary Simonds (msimonds@csbs.org or 202-803-8095) with questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Tuesday, July 29, 2014 11:07 AM
To: Owen, Jan Lynn@DBO
Subject: Input Requested: FinCEN Draft Armored Car Guidance

If this email does not display properly, please view our online version.

TO: Regulatory Committee

The Financial Crimes Enforcement Network ("FinCEN") has requested input from CSBS on the draft guidance developed to clarify the application of FinCEN regulations to certain common carriers, including armored car services. In 2011, FinCEN expanded the definition of a money transmitter to include a number of different business entities. This draft guidance identifies various activities of common carriers, including armored car services, that meet the federal definition of a money transmitter and therefore must comply with Bank Secrecy Act and Anti-Money Laundering Requirements for Money Services Businesses (MSBs). FinCEN is particularly interested in state regulators' perspectives on applicability to state agencies and their licensees.

Please provide any comments to Jeanette Barraza at jbarraza@csbs.org no later than Wednesday July 30th. **PLEASE NOTE: This is draft guidance and should not be used or published as it has not been finalized.**

Please don't hesitate to reach out to me, Jeanette Barraza (jbarraza@csbs.org or 202-728-5708), or Mary Simonds (msimonds@csbs.org or 202-803-8095) with questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Tuesday, July 29, 2014 12:18 PM
To: Owen, Jan Lynn@DBO
Subject: Update on SAFE Act Privilege and Confidentiality Bill (H.R. 4626)

If this email does not display properly, please view our online version.

TO: Commissioners and Deputies

The House just passed H.R. 4626, the SAFE Act Confidentiality and Privilege Enhancement Act, under suspension of the rules, an expedited procedure reserved for non-controversial bills. Thanks to the many of you who devoted your time and energy to get this bill through the House and to get the Senate version (S. 947) passed late last year.

The next step is for either bill to be passed by the other chamber – either House passage of S. 947 or Senate passage of H.R. 4626.

Thanks again for your advocacy efforts that have gotten the legislation this far and we will keep you updated as legislative events warrant.

Please contact Sandy Sussman (ssussman@csbs.org or 202-407-7160), Natalie McGarry (nmcgarry@csbs.org or 202-728-5752), or me if you have any questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

McQuinn, Michael@DBO

From: Margaret Liu <MLiu@csbs.org>
Sent: Tuesday, July 29, 2014 12:24 PM
To: Owen, Jan Lynn@DBO
Subject: EPTF Call Reminder & Updates - With Draft FinCEN Guidance

If this email does not display properly, please view our online version.

TO: EMERGING PAYMENTS TASK FORCE

Please not that this version includes the draft FinCEN Armored Car Guidance under the "Additional Updates" section.

This is a reminder that we are having our monthly call tomorrow from 3:30-4:30 pm ET. Click here to add the call-in details to your calendar.

Call Agenda

- Industry Meeting Debrief
- NY DFS Proposed BitLicense
    - Click here for proposed regulations
    - Click here for the NY DFS Press Release
- Model Framework. Staff have drafted a model framework for the Task Force's consideration. This is a very rough draft prepared as a means for structuring the Task Force's discussion. This document draws from various sources, including: a discussion among state regulatory attorneys, the Uniform Money Services Act, public and private discussions with industry, and materials issued by the New York Department of Financial Services, Texas and Kansas.

Additional Updates

- Article from Pew Foundation Publication on state regulatory activities related to virtual currencies. Click here to view. This article discusses the states work on regulating digital currency including the CSBS Emerging Payments Task Force, New York's proposed regulations, the new California legislation, and Texas and Kansas' recent regulatory guidances.
- Draft Armored Car Guidance. The Financial Crimes Enforcement Network ("FinCEN") has requested input from CSBS on the draft guidance developed to clarify the application of FinCEN regulations to certain common carriers, including armored car services. In 2011, FinCEN expanded the definition of a money transmitter to include a number of different business entities. This draft guidance identifies various activities of common carriers, including armored car services, that meet the federal definition of a money transmitter and therefore must comply with Bank Secrecy Act and Anti-Money Laundering Requirements for Money Services Businesses (MSBs). FinCEN is particularly interested in state regulators' perspectives on applicability to state agencies and their licensees. Please click here to download the CSBS

staff summary of the draft guidance and provide any comments to Jeanette Barraza at jbarraza@csbs.org no later than Wednesday July 30th. PLEASE NOTE: This is draft guidance and should not be used or published as it has not been finalized.

Please don't hesitate to reach out to me, Jeanette Barraza (jbarraza@csbs.org or 202-728-5708), or Mary Simonds (msimonds@csbs.org or 202-803-8095) with questions.

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

Click here if you prefer not to receive any further email from CSBS.

From: Margaret Liu <MLiu@csbs.org>
Sent: Wednesday, July 30, 2014 10:45 AM
To: Owen, Jan Lynn@DBO
Subject: Please Contact Home State Senators About HR 4626

If this email does not display properly, please view our online version.

To: Commissioners, Deputies, and Legislative Contacts:

As reported yesterday, the House passed H.R. 4626, the SAFE Act Confidentiality and Privilege Enhancement Act, under suspension of the rules, an expedited procedure reserved for non-controversial bills. To capitalize on the legislative momentum, please contact your home state Senators ask them to weigh in with Majority Leader Harry Reid (D-NV) to have the bill "held at the desk" for quick passage. Legislation held at the desk can more easily bypass normal referral to and consideration by the Committee of jurisdiction for quick passage.

Below are suggested talking points when you contact your Senators:

- I am contacting you to respectfully request you ask Majority Leader Harry Reid to have HR 4626, the SAFE Act Confidentiality and Privilege Enhancement Act which passed the House by voice vote on July 29, held at the desk for quick passage.
- This bipartisan bill enhances the SAFE Act's protections for privileged and/or confidential information shared through the Nationwide Mortgage Licensing System (NMLS).
- This common sense bill enhances a system that makes regulation more efficient for regulators and our regulated entities.
- The Senate has already passed companion legislation, S.947, by unanimous consent in December. S. 947 was co-sponsored by both Banking Chairman Tim Johnson and Ranking Member Mike Crapo.
- Thank you for help in ensuring H.R. 4626 can be quickly passed and signed into law.

If you have any questions, please contact Sandy Sussman (ssussman@csbs.org or 202-407-7160) or Natalie McGarry (nmcgarry@csbs.org or 202-728-5752)

Margaret Liu
Senior Vice President and Deputy General Counsel
Conference of State Bank Supervisors

202.728.5749 I 202.368.1498 (c)

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Promontory

Disclosable

McGuffin, Matthew@DBO

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----- Original Message -----
From: Haraf, William (Bill) [mailto:wharaf@promontory.com]
Sent: Tuesday, June 25, 2013 12:49 AM
To: Venchiarutti, Robert@DFI
Subject: Conversation today

Hi Bob,

I called Teveia this morning since I was surprised by the action against the foundation. She preemptively explained what happened before I asked. So sorry to hear about this.

I've been thinking about graceful exits and have an idea, though I suspect you've already come to a similar conclusion.

Feel free to call tomorrow if you'd like to talk. My day is pretty open.

Best,

Bill

William S. Haraf
Managing Director
Promontory Financial Group
Spear Tower, 1 Market Plaza, Suite 4100
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From: Haraf, William (Bill) <wharaf@promontory.com>
Sent: Monday, July 01, 2013 6:43 PM
To: Venchiarutti, Robert@DBO
Subject: FW: Governor Brown Announces Appointments

Hi Bob,

I just got off the phone with Teveia and wanted to reach out to you as well. I hope this works out ok for you, but let's talk when you are ready.

Jo and I are off to Chicago tomorrow to send the rest of the week with family, but I'll be checking email and vmail. See you at summer Smoketree if not before.

Best,

Bill

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From: Barnes, Teveia@DBO [Teveia.Barnes@dbo.ca.gov]
Sent: Monday, July 01, 2013 6:18 PM
To: Haraf, William (Bill)
Subject: FW: Governor Brown Announces Appointments

Jan Owen is the new commissioner of the Department of Business Oversight.

From: Governor's Press Office <govpressoffice@gov.ca.gov<mailto:govpressoffice@gov.ca.gov>>
Date: July 1, 2013, 5:27:12 PM PDT
To: <Janlynn.owen@corp.ca.gov<mailto:Janlynn.owen@corp.ca.gov>>
Subject: Governor Brown Announces Appointments
Reply-To: Governor's Press Office <govpressoffice@gov.ca.gov<mailto:govpressoffice@gov.ca.gov>>

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[http://cert1.mail-west.com/vSerggrytX/gKry/zjanmc7rm/myu/_yczg_gt/hj7d7rmgKfryvs/dgni/zvgK0gK0gKep1/tac.rtnuhu]

FOR IMMEDIATE RELEASE:

Contact: Governor's Press Office

Monday, July 1, 2013 (916) 445-4571
Governor Brown Announces Appointments

SACRAMENTO – Governor Edmund G. Brown Jr. today announced the following appointments.

Reggie Fair, 55, of Sacramento, has been appointed deputy secretary of legislation at the California Business, Consumer Services and Housing Agency. Fair served as deputy secretary of legislation at the California State and Consumer Services Agency in 2013 and has served in multiple positions at the Office of California State Senator Curren D. Price since 2008, including deputy chief of staff and legislative director. He was chief executive officer and president at R. Fair and Associates from 1999 to 2008 and consultant for the Yes on Proposition 223 campaign in 1998. Fair served as managing partner at Dymally Earnest and Fair Inc. from 1992 to 1999, consultant for the No on Proposition 174 campaign in 1993 and campaign manager for Teresa Hughes for State Senate in 1992. He was principal consultant for the California State Assembly Education Committee from 1987 to 1992. Fair was an advance coordinator for Tom Bradley for Governor in 1985, management analyst at the City of Los Angeles Department of Aging from 1984 to 1987 and Southern California coordinator for the John Glenn Presidential Committee from 1983 to 1984. Fair earned a Master of Arts degree in political science from the University of California, Santa Barbara. This position does not require Senate confirmation and the compensation is $126,708. Fair is a Democrat.

Melissa Figueroa, 32, of West Sacramento, has been appointed deputy secretary of communications at the California Business, Consumer Services and Housing Agency. Figueroa served as deputy secretary of communications of the California State and Consumer Services Agency from 2011 to 2013 and was press secretary for California State Senator Joe Simitian from 2009 to 2011. She was a consumer producer at KCRA 3 Television from 2006 to 2009 and a newscast producer at KSBY 6 Television from 2002 to 2006. This position does not require Senate confirmation and the compensation is $110,004. Figueroa is a Democrat.

James N. Goldstene, 50, of Gold River, has been appointed undersecretary at the California Business, Consumer Services and Housing Agency. Goldstene served as undersecretary at the California State and Consumer Services Agency in 2013 and was executive officer at the California Air Resources Board from 2007 to 2013. Goldstene was deputy chief at the California Bureau of Automotive Repair from 2003 to 2006 and bureau chief at the California Bureau of Barbering and Cosmetology from 2000 to 2003. Goldstene served as interim registrar at the California Contractors State License Board in 2000, director of policy research at the California Debt and Investment Advisory Commission from 1999 to 2000 and part-time faculty in California State University, Sacramento, Government Department from 1996 to 2007. He was program manager at the California Pollution Control Financing Authority from 1992 to 1999, senior policy advisor to

Lieutenant Governor Leo McCarthy from 1991 to 1992 and legislative assistant to California State Assemblymember Lloyd Connelly from 1989 to 1991. Goldstene earned a Master of Arts degree in government from California State University, Sacramento. This position does not require Senate confirmation and the compensation is $145,500. Goldstene is a Democrat.

Leslie R. Lopez, 52, of Sacramento, has been appointed general counsel at the California Business, Consumer Services and Housing Agency. Lopez served as general counsel at the California State and Consumer Services Agency from 2007 to 2013. She was deputy attorney general at the California Department of Justice, Government Law section from 1994 to 2007 and deputy city attorney for the Sacramento City Attorney's Office from 1990 to 1994. Lopez was an associate attorney at Matteoni Saxe and Nanda from 1987 to 1990. She earned a Juris Doctorate degree from the Santa Clara University School of Law. This position does not require Senate confirmation and the compensation is $129,996. Lopez is registered decline-to-state.

Brian Annis, 44, of Sacramento, has been appointed undersecretary at the California State Transportation Agency. Annis has been deputy secretary for transportation at the California Business, Transportation and Housing Agency since 2012. He served in multiple positions for the California State Senate Committee on Budget and Fiscal Review, including deputy staff director from 2010 to 2012, principal consultant from 2005 to 2010 and consultant from 2004 to 2005. Annis served in multiple positions at the California Department of Finance, including principal program budget analyst II from 2002 to 2004, staff finance budget analyst from 1999 to 2002 and research analyst II from 1998 to 1999. He was an adjunct professor of economics at the American River College from 1997 to 2002, a teaching assistant and distance learning instructor at the University of Washington from 1995 to 1997 and an economist at the U.S. Department of Labor, Bureau of Labor Statistics from 1992 to 1995. Annis earned a Master of Arts degree in economics from the University of Washington. This position does not require Senate confirmation and the compensation is $145,008. Annis is a Democrat.

Russia Chavis, 30, of Sacramento, has been appointed deputy secretary for transportation safety and enforcement at the California State Transportation Agency. Chavis has served as deputy secretary for housing and real estate at the California Business, Transportation and Housing Agency since 2012. She was a fiscal and policy analyst at the California Legislative Analyst's Office from 2009 to 2012, planning and program development intern at the Los Angeles Community Redevelopment Agency from 2008 to 2009, a database manager and analyst at Environmental Synectics from 2006 to 2007 and grants program coordinator at Sacramento Child Advocates from 2005 to 2006. Chavis earned a Master of Public Policy degree from the University of Southern California. This position does not require Senate confirmation and the compensation is $95,004. Chavis is a Democrat.

Ben De Alba, 26, of Sacramento, has been appointed assistant secretary for rail and ports at the California State Transportation Agency. De Alba has been special assistant at the California Business, Transportation and Housing Agency since 2012. De Alba served in multiple positions in the customer service industry from 2002 to 2012. This position does not require Senate confirmation and the compensation is $45,000. De Alba is a Democrat.

Carol Farris, 52, of Sacramento, has been appointed deputy secretary of policy coordination at the California State Transportation Agency. Farris has been deputy secretary of business oversight and agency operations at the California Business, Transportation and Housing Agency since 2012. She was assistant secretary of agency relations at the

Business, Transportation and Housing Agency from 2001 to 2012, director of administration for Lieutenant Governor Cruz M. Bustamante from 1999 to 2001, staff director at the California State Assembly Speaker's Office of Member Services from 1997 to 1998 and business manager at Strategic Education Services from 1990 to 1997. This position does not require Senate confirmation and the compensation is $114,996. Farris is registered decline-to-state.

Gareth Lacy, 31, of Sacramento, has been appointed deputy secretary of communications and strategic planning at the California State Transportation Agency. Lacy has been deputy secretary of communications and strategic planning at the California Business, Transportation and Housing Agency since 2012. He was senior research associate at the Office of Governor Edmund G. Brown Jr. from 2011 to 2012, editor-in-chief of the Washington Journal of Law, Technology and Arts from 2010 to 2011 and research assistant at the University of Washington School of Law from 2010 to 2011. Lacy was press secretary in the Office of Attorney General Edmund G. Brown Jr. from 2007 to 2008 and deputy campaign manager of Brown for Attorney General from 2005 to 2006. He was a Peace Corps volunteer in Lesotho from 2003 to 2005. Lacy earned a Juris Doctorate degree from the University of Washington School of Law. This position does not require Senate confirmation and the compensation is $112,008. Lacy is a Democrat.

Ronda Paschal, 50, of Sacramento, has been appointed deputy secretary of legislation at the California State Transportation Agency. Paschal has been deputy secretary of legislation at the California Business, Transportation and Housing Agency since 2012. She was deputy secretary of state of legislative and constituent affairs in the Office of the California Secretary of State from 2007 to 2012, associate vice president at the California Medical Association from 2006 to 2007 and consultant and legislative aide for California State Senator Joseph L. Dunn from 1999 to 2006. Paschal was associate consultant for California State Senator Tom Hayden and the California State Senate Committee on Natural Resources from 1995 to 1999 and was business manager at V. John White Associates from 1989 to 1995. This position does not require Senate confirmation and the compensation is $110,004. Paschal is a Democrat.

Wayne Bell, 59, of Sacramento, has been appointed commissioner at the California Bureau of Real Estate. Bell has served as commissioner of the California Department of Real Estate since 2013, where he was chief counsel and assistant commissioner for legal policy and recovery from 2006 to 2013. He was special counsel and director of homeownership at the California Housing Finance Agency from 2003 to 2006. Bell was deputy secretary and general counsel at the California Business, Transportation and Housing Agency from 1999 to 2003 and served in various positions at Ralphs Grocery Company from 1989 to 1999, including vice president, senior counsel and assistant secretary. Bell earned a Juris Doctorate degree from Loyola Law School, Los Angeles. This position requires Senate confirmation and the compensation is $130,176. Bell is a Democrat.

Tad Egawa, 45, of Sacramento, has been appointed assistant commissioner, legal affairs at the California Bureau of Real Estate. Egawa has been assistant commissioner, legal affairs at the California Department of Real Estate since 2013. He has been deputy attorney general at the California Department of Justice since 2009. He was of counsel and shareholder with McDonough Holland and Allen PC from 2007 to 2009, assistant general counsel at the Ryland Group Inc. from 2004 to 2007 and associate attorney at Jeffer Mangels Butler and Marmaro LLP from 1999 to 2004. Egawa was an associate attorney at Tuttle and Taylor from 1998 to 1999 and at Sheppard Mullin Richter and Hampton LLP from 1996 to 1997. Egawa earned a Juris Doctorate degree from the University of Southern California, Gould School of Law. This position does not require Senate confirmation and the compensation is $126,588. Egawa is a Republican.

Jeffrey Mason, 50, of Sacramento, has been appointed chief deputy commissioner at the California Bureau of Real Estate. Mason has been chief deputy commissioner at the California Department of Real Estate since 2013. He was chief of the Bureau of Security and Investigative Services at the California Department of Consumer Affairs from 2010 to 2013, manager of education and training and client relations at the Lyle Company from 2006 to 2009 and project manager at InsWeb from 2005 to 2006. Mason was owner and operator of a personal chef service at Jump Shots Coffee from 2003 to 2005, manager of the new products and technology implementation team at AT&T Wireless Services from 1996 to 2003 and legislative assistant for California State Assemblymember Denise Ducheny from 1994 to 1995. He was a legislative advocate at Rees and Associates from 1992 to 1994 and a legislative clerk at the California State Assembly Office of the Chief Clerk from 1990 to 1992. Mason was a surgical assistant at Kaiser Hospital from 1987 to 1990 and hospital corpsman in the United States Navy from 1981 to 1987. This position does not require Senate confirmation and the compensation is $105,420. Mason is a Democrat.

James Martin, 57, of Sacramento, has been appointed bureau chief at the California Bureau of Real Estate Appraisers. Martin has been director of the California Office of Real Estate Appraisers since 2012. He served in multiple positions at the Real Estate Services Division of the California Department of General Services from 2002 to 2012, including chief of real property services, assistant section chief and senior real estate officer. Martin was a public land management specialist at the California State Lands Commission from 1996 to 2002 and an investigator and property appraiser in the Compliance Division of the California Office of Real Estate Appraisers from 1995 to 1996. Martin was president and chief appraiser at California Property Research Inc. from 1981 to 1994. This position requires Senate confirmation and the compensation is $119,424. Martin is registered decline-to-state.

John Hanna, 62, of Orange, has been appointed general counsel at the California Department of Business Oversight. Hanna has been general counsel at the California Department of Corporations since 2012. He was partner at Hanna and Scott from 2004 to 2011, an attorney at Horton Barbaro and Reilly from 1980 to 2004 and a public information officer for the U.S. House Select Committee on Committees from 1979 to 1980. Hanna was a congressional aide to Congressman Jerry Patterson from 1976 to 1979. He earned a Juris Doctorate degree from Loyola Law School, Los Angeles. This position is does not require Senate confirmation and the compensation is $120,000. Hanna is a Democrat.

Kathryn Knudson, 32, of Sacramento, has been appointed education and outreach coordinator at the California Department of Business Oversight. Knudson has been the education and outreach coordinator at the California Department of Corporations since 2012. She served in multiple positions at the California Medical Assistance Commission from 2006 to 2012, including research associate and special assistant. Knudson was a constituent affairs representative at the Office of Governor Arnold Schwarzenegger from 2004 to 2006. This position does not require Senate confirmation and the compensation is $58,524. Knudson is registered decline-to-state.

Michael McQuinn, 28, of Sacramento, has been appointed assistant general counsel at the California Department of Business Oversight. McQuinn has been assistant to the general counsel at the California Department of Corporations since 2013. He was a law clerk at the California Department of Fair Employment and Housing in 2012 and a legal extern at the Office of Governor Edmund G. Brown Jr. in 2011. McQuinn earned a Juris Doctorate degree from the University of San Francisco, School of Law. This position does not require Senate confirmation and the compensation is $56,088. McQuinn is a Democrat.

Lila Mirrashidi, 29, of Redondo Beach, has been appointed deputy commissioner of business regulation at the California Department of Business Oversight. Mirrashidi has been deputy commissioner of business regulation at the California Department of Corporations since 2012. She was deputy appointments secretary at the Office of Governor Edmund G. Brown Jr. from 2011 to 2012, deputy research director for the Jerry Brown for Governor Campaign from 2009 to 2010 and a legal intern at the United Nations International Criminal Tribunal for the Former Yugoslavia in 2008. Mirrashidi earned a Juris Doctorate degree from University of California, Hastings College of the Law. This position does not require Senate confirmation and the compensation is $74,988. Mirrashidi is a Democrat.

Tara Murphy, 55, of Alameda, has been appointed assistant general counsel at the California Department of Business Oversight. Murphy has been assistant general counsel at the Department of Financial Institutions since 2012. She was vice president and counsel at Fireside Bank from 1995 to 2012, senior counsel at the Federal Deposit Insurance Corporation from 1993 to 1995 and manager of field operations at the Canadian Deposit Insurance Corporation from 1990 to 1992. Murphy served as senior counsel at the Federal Deposit Insurance Corporation from 1983 to 1990 and was an associate at Callaghan Callaghan Ruckman and Vaughan from 1982 to 1983. She earned a Juris Doctorate degree from the West Virginia University, College of Law. This position does not require Senate confirmation and the compensation is $122,196. Murphy is a Democrat.

Dave O'Toole, 41, of Sacramento, has been appointed chief deputy commissioner at the California Department of Business Oversight. O'Toole has been chief deputy director at the California Department of Corporations since 2012. He was policy director at the California State Controller's Office from 2007 to 2012, consultant for the California State Senate Committee on Budget and Fiscal Review from 2004 to 2007 and a staff finance analyst at the California Department of Finance from 2001 to 2003. O'Toole served as an ordnance and damage control officer in the United States Navy from 1995 to 1999 and worked as a teacher and community organizer at Dolores Mission Alternative School from 1994 to 1995. He earned a Master of Public Policy degree from the Georgetown Public Policy Institute. This position does not require Senate confirmation and the salary is $136,584. O'Toole is a Democrat.

Jan Owen, 61, of West Sacramento, has been appointed commissioner at the California Department of Business Oversight. Owen has been commissioner of the California Department of Corporations since 2011. She was principal at the Jan Owen Group from 2010 to 2011, strategic initiatives manager at Apple Inc. from 2009 to 2010 and vice president of government affairs at JP Morgan Chase from 2008 to 2009. Owen served as state director of government and industry affairs at Washington Mutual Inc. from 2002 to 2008 and executive director of the California Mortgage Bankers Association from 2000 to 2002. She was acting commissioner of the California Department of Financial Institutions from 1999 to 2000, where she served as deputy commissioner from 1996 to 1999. This position requires Senate confirmation and the compensation is $150,120. Owen is a Democrat.

Patricia Salazar, 30, of Pacoima, has been appointed deputy commissioner of public affairs at the California Department of Business Oversight. Salazar has served as deputy commissioner of public affairs at the California Department of Corporations since 2012. She was a legislative and regulatory lobbyist at the California and Nevada Credit Union League from 2010 to 2012, senior account executive at Cerrell Associates Inc. from 2007 to 2010 and council aide for the City of Los Angeles, Council District 7 from 2006 to 2007. Salazar served as an assistant southern California field director for the California Democratic Party in 2006 and council aide for the City of Los Angeles, Council District 14 from 2005 to 2006. She earned a Master of Public Administration degree from the University of Southern California. This position does not require Senate confirmation and the compensation is $90,000. Salazar is a Democrat.

Teveia Barnes, 60, of Tiburon, has been appointed senior deputy commissioner of the Division of Financial Institutions at the California Department of Business Oversight. Barnes has been commissioner of the California Department of Financial Institutions since 2012. She was a partner at Foley and Lardner LLP from 2005 to 2012 and president and executive director at Lawyers For One America from 1999 to 2012. Barnes was executive director and general counsel at the Bar Association of San Francisco from 2001 to 2003. She worked in multiple positions at the Bank of America National Trust and Savings Association from 1986 to 1999, including associate general counsel and senior vice president. Barnes earned a Juris Doctorate degree from New York University, School of Law. This position requires Senate confirmation and the compensation is $142,965. Barnes is a Democrat.

RaAnn Wood, 56, of Alta Loma, has been appointed deputy commissioner of the Division of Credit Unions at the California Department of Business Oversight. Wood has been deputy commissioner of the Division of Credit Unions at the California Department of Financial Institutions since 2008. She was president and chief executive officer at the California Center Credit Union from 2004 to 2008, professional networks manager and research analyst at the California Credit Union League from 1997 to 2004 and a mortgage loan compliance officer at Provident Savings Bank from 1993 to 1997. This position does not require Senate confirmation and the compensation is $103,608. Wood is registered decline-to-state.

Sylvia Ortega Hunter, 50, of Roseville, has been appointed deputy director of the Division of Boating and Waterways at the California Department of Parks and Recreation. Hunter has held multiple positions at the California Department of Boating and Waterways since 2010, including acting director, chief deputy director and chief of loan and grant financial services. She was a staff services manager at the California Department of Corrections and Rehabilitation from 2007 to 2009 and at the California Department of Health Care Services from 2006 to 2007. Hunter held multiple positions at the California Department of Water Resources from 1998 to 2006, including associate management analyst and drinking water infrastructure finance manager. She was associate management auditor at the California Department of General Services from 1989 to 1998 and a general auditor at the California Department of Developmental Services from 1987 to 1989. This position does not require Senate confirmation and the compensation is $97,704. Hunter is registered decline-to-state.

Christopher J. Murphy, 56, of Elk Grove, has been appointed director of the California Office of Traffic Safety, where he has served in multiple positions since 1986, including director, interim director, deputy director, assistant director of operations, statewide police traffic services program coordinator, associate accounting analyst and accounting analyst. Murphy serves on the Mothers Against Drunk Driving (MADD) Statewide Advisory Council and the Highway Traffic Safety Subcommittee on Safety Management for the American Association of State Highway and Transportation Officials. He was chairman of the Governors Highway Safety Association from 2006 to 2007. This position does not require Senate confirmation and the compensation is $114,024. Murphy is a Democrat.

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Governor Edmund G. Brown Jr.
State Capitol Building

Sacramento, CA 95814

Forward<http://cert1.mail-west.com/anmc7rmbSyoF/bSgtmyuzj/c71aw11/spt9s2oa/2bSpgo>   View in Browser<http://cert1.mail-west.com/anmc7rmxNykA/xNgtmyuzj/c71aw11/spt9s2oa/3xNbye>

[http://cert1.mail-west.com/mc7rm5Mog5Z/Mgtmyuzjan/5/c71aw11/spt9s2oa/tby5M/svt.bkcs]

Effective July 1, 2013, the Department of Corporations and the Department of Financial Institutions merged to form the Department of Business Oversight in accordance with the Governor's reorganization of state departments to provide services more efficiently and effectively.

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McGuffin, Matthew@DBO

From:	Duncan, Shana <sduncan@promontory.com> on behalf of Haraf, William (Bill) <wharaf@promontory.com>
Sent:	Monday, July 08, 2013 5:39 PM
Cc:	mlowy@tampabay.rr.com
Subject:	White Paper for Smoketree Participants
Attachments:	Atlantic Banking Glut 7-4-13.docx

Smoketree Participants,

Marty Lowy, a long-time participant in the Smoketree Ranch winter meetings and one of the discussion leaders at our first session on Friday, has asked me to distribute the attached white paper to the group. Marty is copied here and welcomes your comments, either by email or at our meetings.

Bill

William S. Haraf
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The TransAtlantic Banking Glut that Caused the Great Recession:

Mechanisms, Origins, Consequences and Lessons

(a work in progress, as of July 4, 2013)
(the author invites comments and suggestions)
By Martin Lowy

The European banking/sovereign debt financial crisis and the U.S. Great Recession and financial crisis can be traced to the same cause: A transatlantic banking glut that fuelled rising real property prices in the U.S., Spain, the U.K., Ireland, Greece, and several other countries in the 2003-2007 period. The TransAtlantic Banking Glut, as I will call it, was mostly made in Europe and imported into the U.S., but the interplay tells us a lot about modern economies and financial systems. The fundamental lesson to be learned is the same as the fundamental lesson of almost every financial crisis: Excessive credit inflates asset prices and, when prices crash, creates recessions and financial crises through bad loans and reduced economic activity. But the cross-border nature of the transmission mechanisms makes this incident particularly interesting and may make it possible for us to see causes and possible solutions more clearly.

Although it is true that the structure of the euro is basically faulty, I believe that focusing on the euro's flaws—that have to be fixed or ameliorated as part of the solutions to the current European crisis—leads to wrong conclusions about causes. I do not think the flaws in the euro's design caused the banking and sovereign debt crises that continue to grip Europe.

The post-2009 bailout/non-bailout austerity/stimulus syndrome of crisis management also is faulty. But probably there are no good ways—only less bad ways—to manage a crisis after the asset/debt implosion. Thus, the basic faults lie in the policies that fostered the boom, not the policies that tried to ameliorate the bust.

In the *General Theory*, Keynes admonished policy makers not to keep the economy in a "semi-slump" in order to avoid the boom and bust cycle.[1] Better to keep the economy in a constant boom, he thought. Unfortunately, there seems to be no such thing as a constant boom. History has no examples that would lead one to conclude that such a state of affairs is possible. Policy makers have to choose between booms and busts on the one hand and (I hope) a steadier state on the other. Keynes backhandedly called it a semi-slump. I call the goal moderate, steady growth. (I do not suggest that there will not be cycles. But the cycles need not be augmented, as they have been, by government policies.)

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[1] Keynes has a remarkable paragraph in the *General Theory* (p. 214) in which he says "Thus the remedy for the boom is not a higher rate of interest but a lower rate of interest. For that may enable the so-called boom to last. The right remedy for the trade cycle is not to be found in abolishing booms and thus keeping us permanently in a semi-slump; but in abolishing slumps and thus keeping us permanently in a quasi-boom." In a footnote to this paragraph, Keynes admits that in some circumstances higher rather than lower interest rates might be warranted. But the point about a permanent semi-slump as an alternative to a permanent boom is not retracted. This was pointed out by Samuel Brittan in the *FT* in June 2013. Brittan said he had always believed it, but now he has changed his mind. If Brittan, at age 80-odd, can change his mind, perhaps others can as well.

I will argue that the European and American financial crises and recessions/slow recoveries are all of a piece, with the same origins.

Basically, when financial institutions appear to be healthy and are encouraged to lend, they can be dangerous. At such times, they lend freely, causing the society or the economy to look healthy when in fact they may be borrowing from the future to finance current expenditures. That is what happened on both sides of the Atlantic in 2003-2007: Spending borrowed money made economies look healthy when basically they were not. They were not healthy because they were not globally competitive and would have been in recession or at very low growth had the borrowings not allowed them temporarily to live beyond their means. When the lending/borrowing had to stop, the spending had to stop, and that caused recessions, declining real property prices, and, through loan loss provisions and securities valuation writedowns, a financial crisis in which over-leveraged banks quickly became insolvent or close to it. It is no wonder that liquidity dried up: Who wants to deal with a counterparty that might well be insolvent?

Unfortunately for Europe, the U.S. has some inherent advantages that have made the U.S. recovery better and will continue to make the U.S. economy better than the European economy as a whole. Those advantages, more than better crisis management, are why The U.S. has performed better.

The press continues to treat the banking crisis as made in America. I submit that it was a cooperative venture among U.S. banks, European banks, and sovereigns on both sides of the Atlantic. If anything, I lean toward finding the Europeans more culpable than the Americans. More basically, however, I find that the American and European policy makers, bankers and economic advisers were—and continue to be—seized by an erroneous idea that has exalted of the role of credit.

Admittedly, official encouragement of cheap and abundant credit was not the whole story. American investment bankers and mortgage bankers did create toxic securities that brought to their knees both some large American banks that drank their own cool-aid and several large unwary European banks. And yes, the investment bankers were abetted by compliant rating agencies and lax regulatory policy. And yes, the investment bankers were abetted by American housing policy that sought to put people into houses they could not afford. But in my judgment, it was the pull of the buyers of the securities (largely European banks and conduits) that permitted or propelled the huge securities boom and, through that, the unsustainable U.S. bubble in house prices. Without buyers for the securities, it seems to me that the securities would not have been created. As Michael Lewis's protagonist in *The Big Short* said, the CDO buyers were in "Dusseldorf"—a shorthand for Europe, as I interpret it.

It has widely been wondered why the housing booms of Spain, the U.K., Ireland and Greece were simultaneous with the U.S. boom. The data will show that the real estate booms in all those countries were fuelled by the same group of large European banks—German, French, Dutch, Swiss and British—that grew their wholesale liabilities enormously from 2004-2007 and invested those funds, mostly indirectly (through local banks and conduits) in apparently safe real estate assets. The simultaneous bubbles thus emanated from the same source. Therefore the same system of credit creation suffered as the bubble in real estate prices collapsed in all the countries that had experienced booms.

The basic problem is that the official world loves abundant cheap credit, and regulatory and monetary policies, as well as many tax policies and other subsidies, are designed to deliver that adored commodity. Substantially all of the several suspected enablers of the European and American financial crises are based on policies to promote cheap and abundant credit. Here is my list of enablers:

- Implicit government guarantees of bank liabilities.
- Loose monetary policies.
- Advent of the euro.
- Adoption of Basel II and related phenomena.
- Other lax regulatory and supervisory policies.
- The invention of AAA securities that earned a few extra basis points, thereby making the arbitrage between them and low-cost short-term liabilities superficially attractive.

Since it is cheap subsidized credit that creates the boom, it also is cheap subsidized credit that creates the bust when it disappears, as it must do eventually. Thus it would only be by moderating officialdom's love of cheap credit that progress could be made in the direction of more stable economies and a more stable banking system. I outline the reasons for my conclusion in this paper. But I also suggest a mechanism to reduce the possibility that these policies will cause future credit-fuelled asset-price booms.

The basic economic problem in Europe, as in the U.S., is that too many citizens are not globally competitive. People in less developed countries can do the same things at lower cost. That would explain the employment malaise on both sides of the Atlantic even in the absence of banking and sovereign debt problems. The credit run-up of the early and mid-naughties masked the productivity issues by pumping up the property development sectors of all of the countries that experienced real estate price implosions in 2007 and later. Indeed, it may be that the lack of competitiveness led to or contributed to the banking and sovereign debt crises in that substantially all of the countries that were credit recipients and experienced real estate price booms and busts also had negative current accounts in the years leading up to the crises.

I readily admit that I am not steeped in macroeconomics. However, I continue to study the subject as a whole and monetary policy in particular. So far, I have read of no theory of monetary policy that seems to me to have even a *scintilla* of possibility that it could be useful for the long term. And so far, I am backed up by history.

I do not have a theory to suggest. But the stress-test provisions of Dodd-Frank have paved the way for a partial solution. My conclusion is that, while economists look for a better policy or continue to apply one of the many policies that do not and cannot work, policy should utilize stress testing of all major credit providers in order to insure that lending in general is kept in line with borrowers' ability to repay in stressful circumstances. That should prevent the dangerous booms almost regardless of how unwise Fed or other central bank policies may be. And although it may result in Keynes's perpetual semi-slump (that I prefer to call steady, moderate growth), it will not permit the great periods of destruction that have made central banks adopt heroic solutions that

I am sure have and will continue to have unintended repercussions. In my view, because of the lack of a sound theory, "monetary policy, like medical professionals, should 'first, do no harm.'" See http://mercatus.org/sites/default/files/Horwitz_MonetaryPolicy_v1.pdf

I continue to wonder whether anyone can define money in a way that is useful for managing a modern economy. As a commentator from George Mason University alleged, "The failures of central banks to manage the money supply in ways that avoid macroeconomic disturbances should not surprise anyone. We have decades of evidence, as well as a mountain of economic theory, that indicates the futility of centrally directing resources rather than relying on markets."
http://mercatus.org/sites/default/files/Horwitz_MonetaryPolicy_v1.pdf

I am less sanguine than the source I just quoted about the ability of markets to allocate monetary resources, but perhaps market forces can be channeled in ways that policy can use productively. Money is a creation of government, and therefore it cannot be a "free market" commodity. But because markets that make up the real economy use money in fairly predictable ways, there may be room for a blended theory. I do not have such a theory, but I believe it would be worthwhile to seek one.

This paper has six parts. Part III and Part VI are the most important to my conclusions, but the earlier parts and the parts that intervene are logically necessary discussions where they are placed. The first and longest section describes the TransAtlantic Banking Glut of 2004-2007. It contains data on the major banks of the major European countries that were involved on both sides of the banking glut and shows how the German, French, British, Dutch and Swiss banks financed the real estate booms in the U.S., Spain, Ireland and Greece, either through conduits or through local banks. The TransAtlantic Banking Glut was, I find, the fundamental cause of the boom that led to the bust.

A second, brief, section compares the role of banks in the Asian crises of 1997.

Part III, the section that is key to my conclusions, evaluates the causes of the TransAtlantic Banking Glut. This section includes a discussion of macroprudential versus microprudential supervision and evaluates the likelihood that macroprudential supervision can succeed in preventing the credit-fuelled asset booms that lead to busts. It finds that macroprudential supervision is not likely to be successful in that regard. Readers who are convinced that the TransAtlantic Banking Glut occurred and that it caused the boom that led to the bust may want to skip to this crucial discussion of causation that finds that all of the likely causes lead back to a single original cause in officialdom's love of cheap and abundant credit and the economics profession's validation of that ardor. But if you are not already convinced about the role of the TransAtlantic Banking Glut, I hope the data in Part I will convince you.

Part IV describes the origin of the problem in macroeconomic theory and monetary policy. Both the idea that credit growth is needed for economic growth and the use of banks as the conduits for monetary policy are challenged. It concludes that although investment is needed for economic growth, credit growth sometimes is useful but is not always needed. Necessarily, this section is a short form of a longer discussion.

Part V looks at whether banking weakness after the bust has been a coincident indicator or a causal one vis-à-vis the slow recovery of the real economy following the Great Recession in Europe and the U.S. It concludes that the causative factor, while present, is far weaker than most commentators have contended, although it does exist in Europe.

Part VI describes how supervision through a rigorous regime of stress testing could be sufficient to prevent credit-fuelled asset bubbles from forming. It is my conclusion that such a regime—applied to all major lenders, not only to banks—is the best hope for preventing dangerous asset booms without choking off credit to creditworthy borrowers.

I. The TransAtlantic Banking Glut

Everyone remembers that in 2005 Ben Bernanke gave a speech on the dangers of the "global savings glut". Professor Hyon Song Shin, his former colleague at Princeton, gave the 2011 Mundell Lecture at the University of Pennsylvania in which he identified a "banking glut" rather than a savings glut as being central to the boom of 2003-2007. I find Professor Shin's reasoning and data persuasive. Professor Shin showed that American savings were making a round trip back into U.S. credit markets through European banks. Therefore I call the phenomenon the TransAtlantic Banking Glut rather than a global banking glut.

The excess dollars earned by Asian countries were not, I believe, a material part of the syndrome because they were invested almost entirely in U.S. Government and agency securities. The Asian money seems to have had little, if any, role in the European housing booms. Asian money may have played some role in the U.S. housing boom through GSEs and through keeping long-term interest rates relatively low, but my guess is that role was not major because most of the late-stage lending that did the most damage was subprime lending at high rates that were not fixed for more than first few years.

The following table that I have copied from a BIS publication shows the relative magnitude of European and Asian holdings of U.S. securities in the relevant years. Most crucially, European holdings went from $1.7 trillion in 2002 to $4.2 trillion in 2007. The securities held by Europeans were held mostly by banks and bank affiliates and were mostly securities without U.S. government backing, while the securities held by Asians were held mostly by governments and consisted mostly of U.S. government or government-guaranteed securities. (I include securities issued by GSEs as government guaranteed.)

Commenting on the European and Asian holdings of dollar securities, researchers at the St. Louis Fed said:

> "These data reveal two important facts of the crisis. First, the holdings of East Asian emerging economies with surpluses were largely confined to Treasury securities and agency debt (which then had an implicit government guarantee). More importantly, private-label securities and other holdings of U.S. "toxic" assets were concentrated in highly leveraged financial institutions in advanced economies such as Germany, France, Switzerland, and the United Kingdom— in short, the global European banks. This corroborates the view in Borio and Disyatat (2011) that almost half of all foreign holdings of U.S. securities immediately before the crisis were held in Europe."
>
> http://research.stlouisfed.org/publications/review/12/11/Noeth.pdf

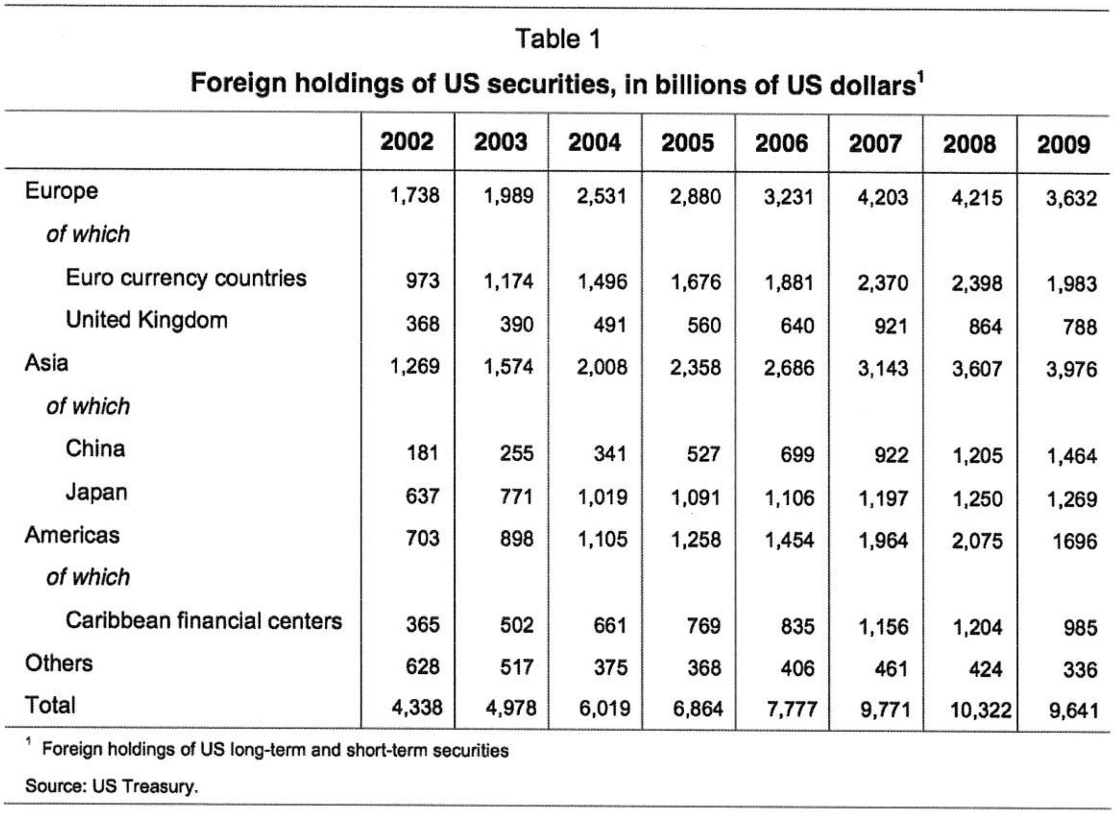


Table 1

Foreign holdings of US securities, in billions of US dollars[1]

	2002	2003	2004	2005	2006	2007	2008	2009
Europe	1,738	1,989	2,531	2,880	3,231	4,203	4,215	3,632
of which								
Euro currency countries	973	1,174	1,496	1,676	1,881	2,370	2,398	1,983
United Kingdom	368	390	491	560	640	921	864	788
Asia	1,269	1,574	2,008	2,358	2,686	3,143	3,607	3,976
of which								
China	181	255	341	527	699	922	1,205	1,464
Japan	637	771	1,019	1,091	1,106	1,197	1,250	1,269
Americas	703	898	1,105	1,258	1,454	1,964	2,075	1696
of which								
Caribbean financial centers	365	502	661	769	835	1,156	1,204	985
Others	628	517	375	368	406	461	424	336
Total	4,338	4,978	6,019	6,864	7,777	9,771	10,322	9,641

[1] Foreign holdings of US long-term and short-term securities

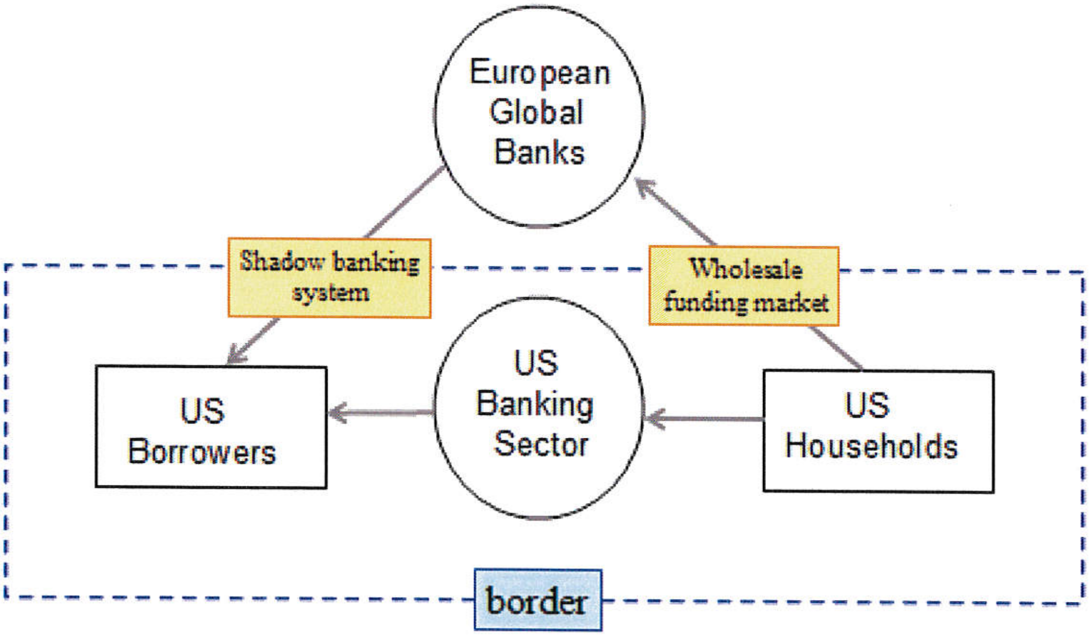
Source: US Treasury.

http://www.bis.org/publ/work346.pdf

Until recently, my conclusions regarding the role of the European banks in the U.S. housing boom were quite controversial, and when I explained them briefly at Smoke Tree in January 2012 I got a decidedly cool reception. But my conclusions now appear to be more mainstream, as shown, for example, by the recent St. Louis Fed paper that I just quoted. It that finds that European banks funded the U.S. housing boom: "This paper presents a brief overview of the role played by global finance in the crisis in the euro zone. In particular, we point to evidence showing the role played by global European banks in financing credit and asset price booms not only in some European countries but also in the United States."
http://research.stlouisfed.org/publications/review/12/11/Noeth.pdf Some BIS publications also have reached similar conclusions. See, e.g., http://www.bis.org/publ/work346.pdf .

A. The Transmission Mechanism

Prof. Shin illustrated his banking glut thesis with a simple (brilliant) schematic:



I do not know the exact size of the market process that Shin described. Although there may be a data glut, it appears to be a glut of the wrong data. I will try to estimate the size of the transfers in a few ways in this paper.

It is clear that the size, whatever it was, was significant and that it was large enough to have a material impact on the U.S. credit markets.

We also will see that parallel, though different, mechanisms, all of which operated through European banks, pumped up the credit markets of Spain, Ireland, Greece, the U.K., and the other European countries that eventually got into credit trouble. I will begin with the transatlantic experience because it was critical to triggering the first part of the European crisis.

Below are some graphs from Prof. Shin's publications that may provide hints as to the magnitude of U.S. MMF participation by buying debt of major European banks.[2] They show that U.S. MMFs grew enormously from the late 1990s through 2008. They also show that whatever the total amount of bank indebtedness to MMFs, about 50% was due from European banks.

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[2] I have used many graphs from Prof. Shin's work. Without his help, I could not have made the progress I think I have made in learning the causes of the European and American crises of 2007 on. I do not know whether Prof. Shin shares any of my broader conclusions.

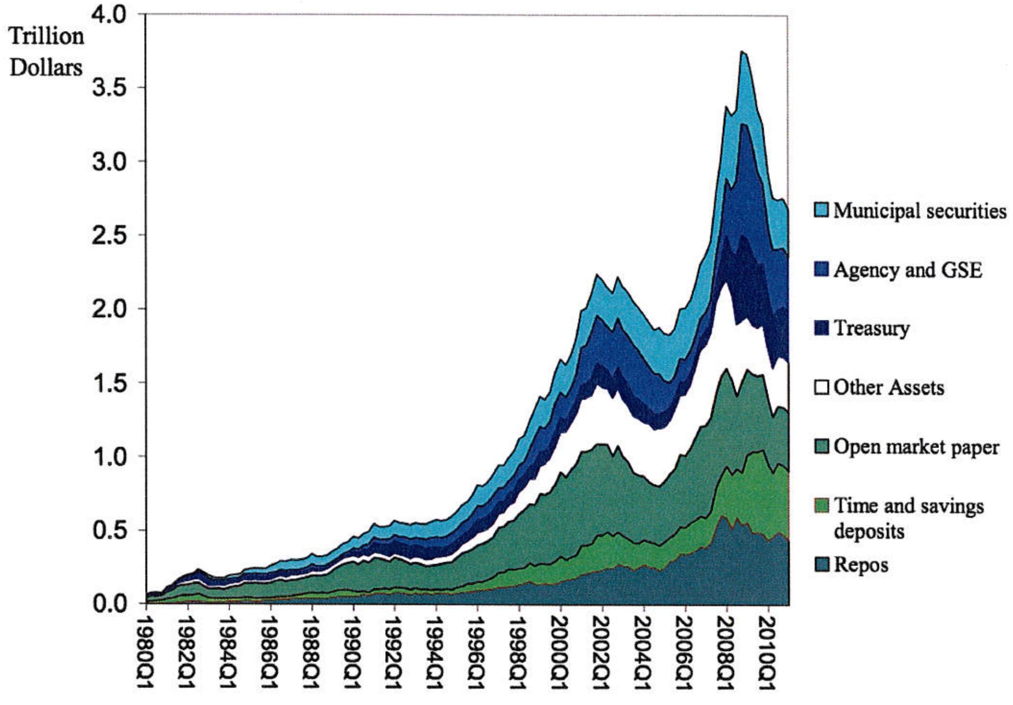


Figure 14. US Money market mutual fund assets (Source: Federal Reserve, Flow of Funds)

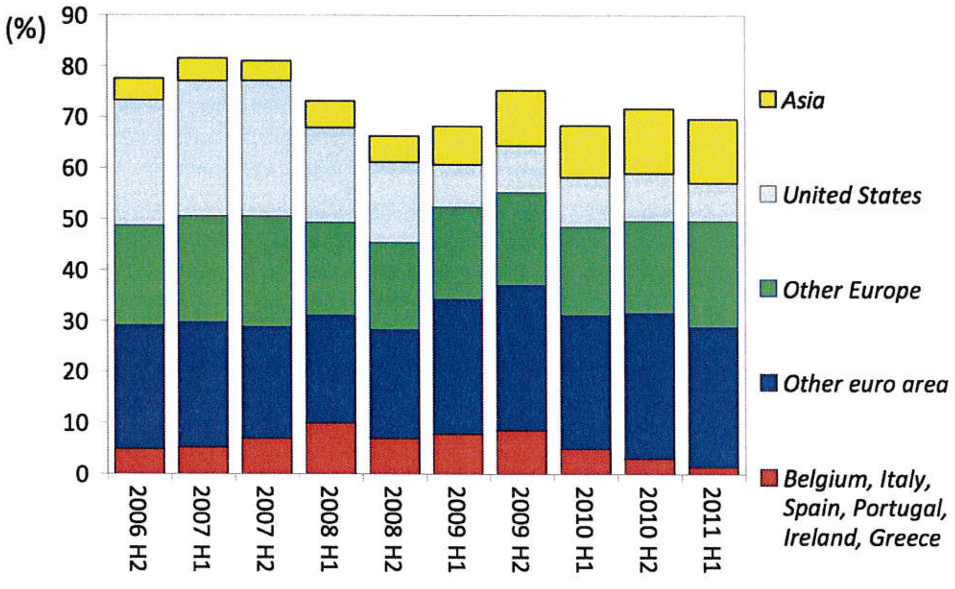


Figure 11. Amount owed by banks to US prime money market funds (% of total), based on top 10 prime MMFs, representing $755 bn of $1.66 trn total prime MMF assets (Source: IMF GFSR Sept 2011, data from Fitch).

Certainly the growth of money fund assets from 1999 to 2008 was extraordinary—sevenfold in nine years, or $3 trillion. Where did that money come from? What drove that growth? I have not yet found answers to those questions. [I would appreciate input.]

Growth of banking assets in those years was stunning as well. U.S.-chartered commercial banks doubled their assets from 2002 to 2007. U.S. dollar assets of banks outside the U.S., held mostly by European banks, tripled in the same timeframe, as shown by the following graph.

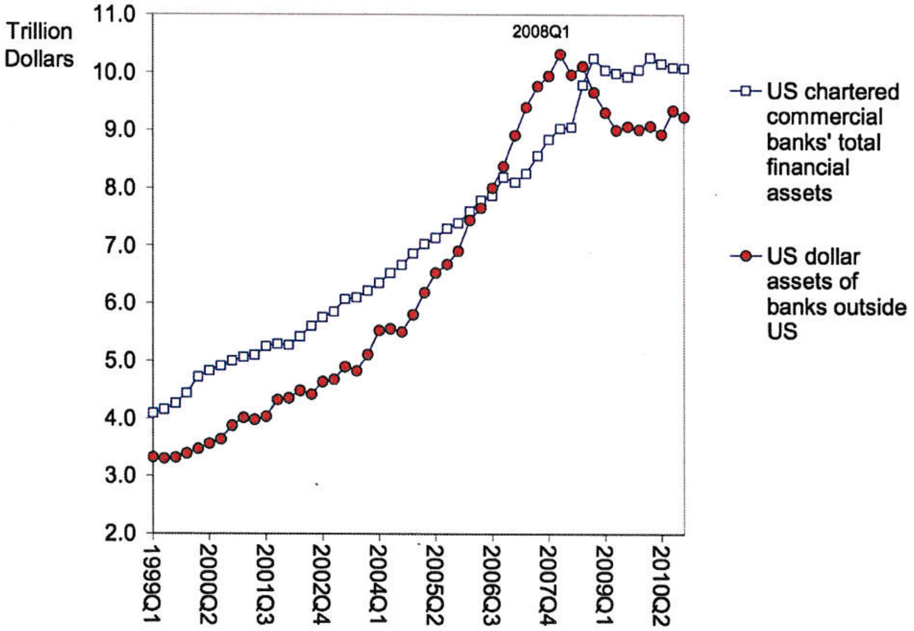


Figure 4. US dollar foreign currency claims of BIS banks and US commercial bank total assets (Source: Flow of Funds, Federal Reserve and BIS locational banking statistics, Table 5A)

Undoubtedly, a great deal of this financial asset growth among U.S. MMFs, U.S. banks, and European banks was double and triple counting, as banks and brokerage firms in the U.S. and Europe leveraged up through repos and other forms of arbitrage and carry trade. But the cross-border nature of much of the credit accommodation is clear, as substantiated by the following graphs from Prof. Shin.

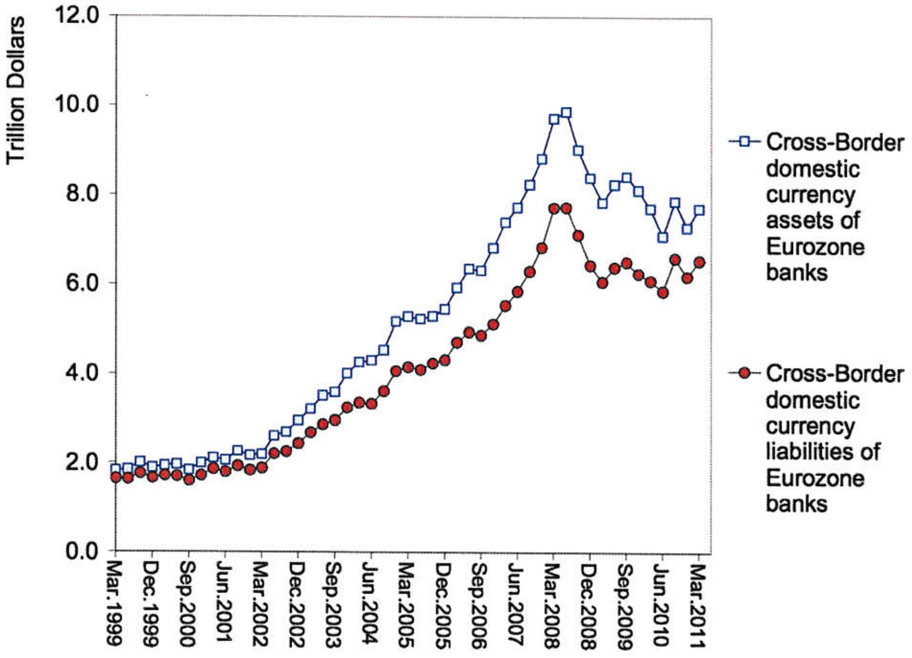


Figure 40. Cross-border domestic currency assets and liabilities of eurozone banks (Source: BIS locational banking statistics, Table 5A)

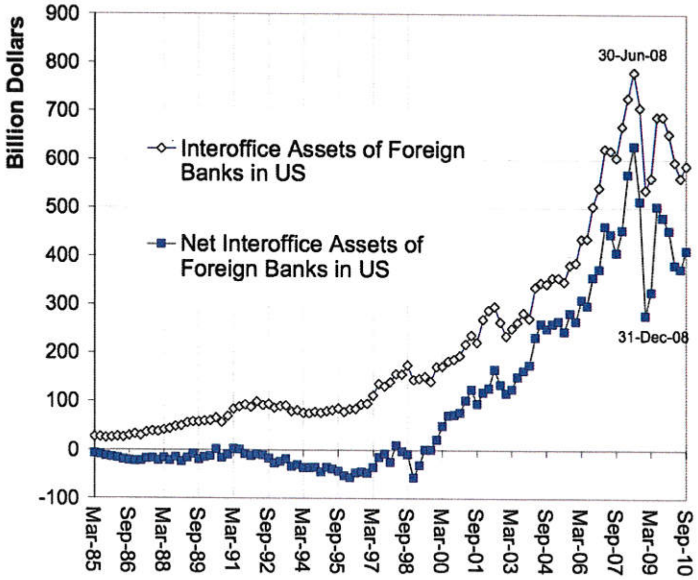


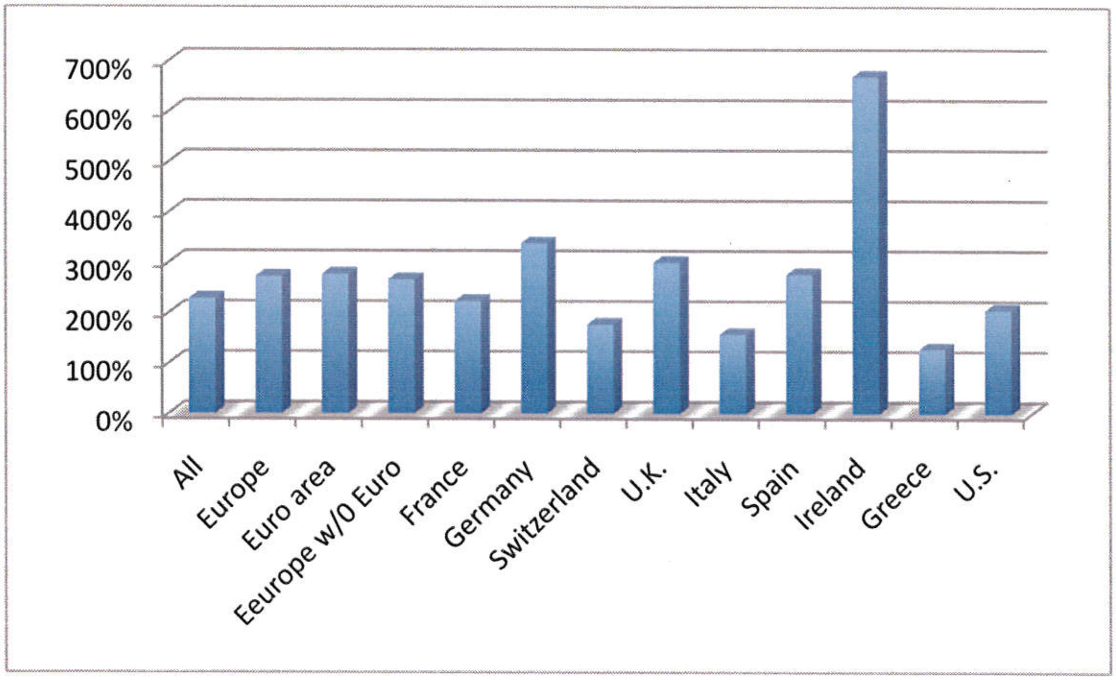
Figure 10. Interoffice assets of foreign banks in the United States (Source: Federal Reserve, series on "Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks")

To get a more detailed picture of the transatlantic flows, I have used BIS data to construct my own graphs of the growth of U.S. and European bank international assets and liabilities. Over the period 1999 to 2007, the growth of the European banks was composed in many cases largely of cross-border liabilities and assets. I have included the

U.S. banks' data in these graphs for comparative purposes. Note also that I have included "Europe", "Euro area" and "Europe without Euro area" as separate categories. The graphs show that those three categories were remarkably similar in their growth, which suggests to me that the advent of the euro probably was not the greatest force behind the growth. Ireland, of course, stands out in its growth of external liabilities. Germany also is higher than one might expect; however, the German phenomenon probably is due to German banks attracting deposits from other Euro area nations after the advent of the euro, deposits that the German banks probably on-lent to Irish, Spanish and other euro area banks.

Growth of Banks' External Liabilities 1999 to 2007

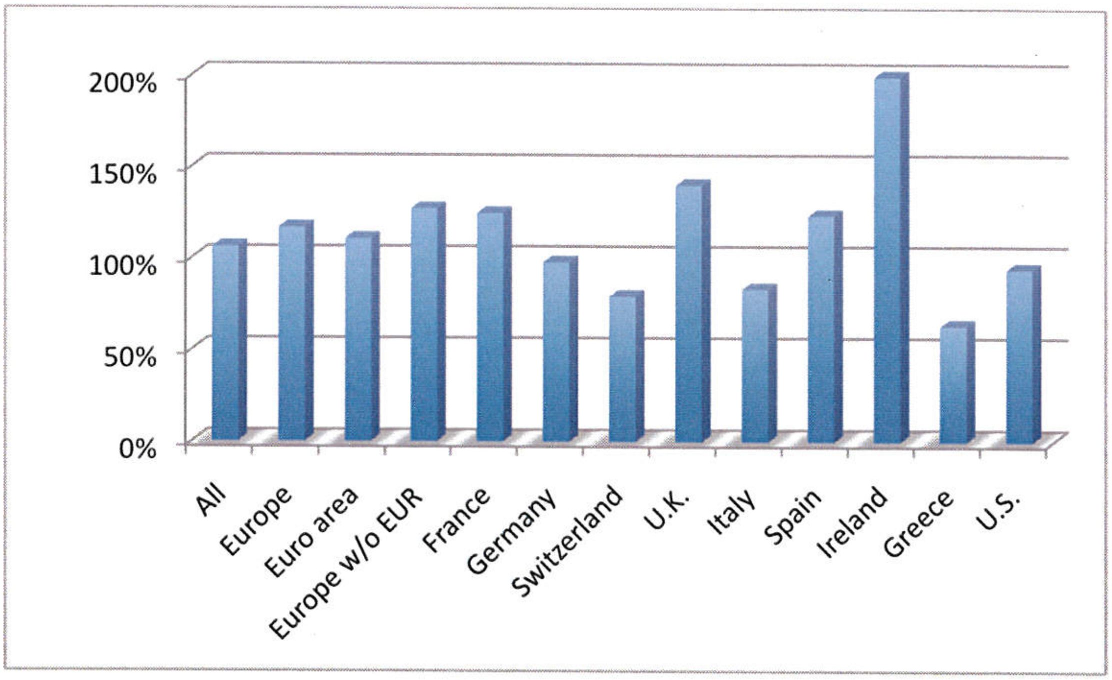
(Source BIS Table 6A, data compiled by the author)



The story in the period of most rapid growth, 2003 to 2007, is similar. Europe within the euro area and outside it posted similar growth. France, the U.K. and Spain grew faster by comparison with others than in the earlier period, and Germany's external bank liabilities grew less.

Growth of Banks' External Liabilities 2003 to 2007

(Source BIS Table 6A, data compiled by the author)

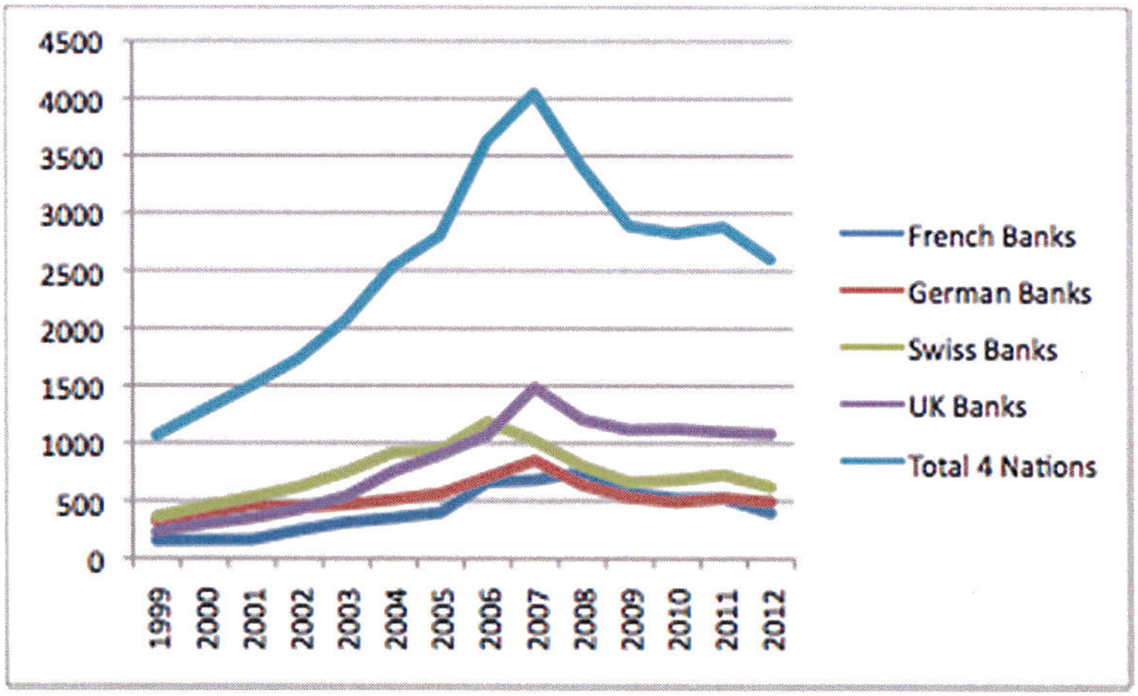


Spain and Ireland look like their growth from external sources must have been facilitated by the advent of the euro. I do not think that German and other European banks would have lent in Irish pounds or Spanish pesetas. Without the euro, the Irish and Spanish property booms probably do not happen. But the U.S. and U.K. phenomena look like they had less to do with the euro and more to do with Basel II, as well as with loose monetary policy and the Ponzi capitalism syndrome in which as assets appreciate and financial institutions are willing to lend ever higher amounts against them. (Banks in Germany, France, the Netherlands etc. lent so freely to banks in countries like Spain and Greece that have been serial defaulters over the centuries that either bankers know no history or the incentives to amnesia must be too great not to succumb to forgetfulness.)

To be more focused on the U.S. assets that triggered the crisis, I have plotted the growth of U.S. asset exposure of banks from four key European nations: France, Germany, Switzerland and the U.K. As the following graph shows, on the asset side vis-à-vis the U.S., the growth was astounding—a fourfold increase from 1999 to 2007. When we consider that the total dollar assets of the U.S. banks at the end of the period was only about $10 [check] trillion, the growth of $3 trillion of European credit to U.S. borrowers within four years seems quite sufficient to have strongly influenced the American credit markets as well as the prices of the assets financed. See, e.g., http://www.bis.org/publ/work346.pdf .

Growth of Dollar Assets of French, German, Swiss and U.K. Banks

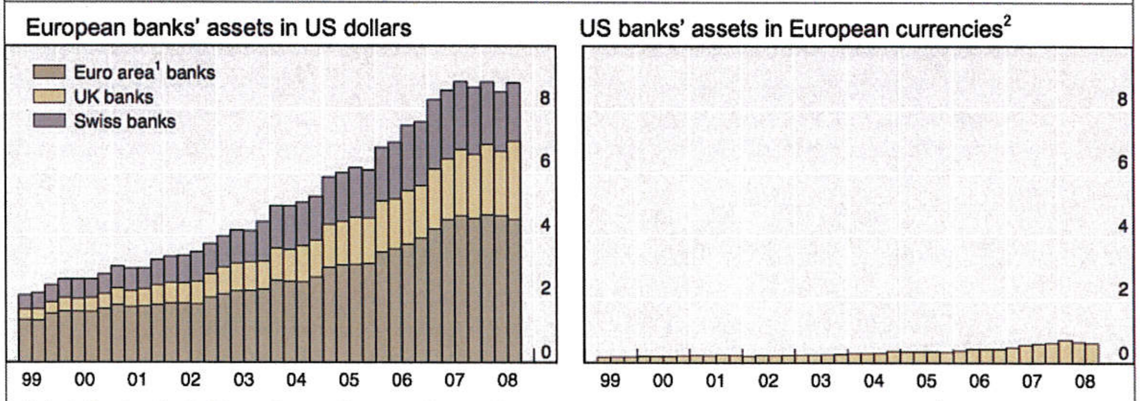
(Data from BIS Table 9D)



The following two graphs from the BIS present another way to look at the data. They show not only the asymmetry of U.S. and European banking growth but also the rapid growth of European banks' U.S. assets. They also show how euro area and non-euro-area countries participated in the growth. These graphs basically confirm my own work with the BIS data, as presented above.

The transatlantic asymmetry in international banking

In trillions of US dollars


European banks' assets in US dollars

US banks' assets in European currencies[2]

[1] Includes Austria, Belgium, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal and Spain. [2] Euro, pound sterling and Swiss franc. Pound sterling covers only US banks' UK offices; Swiss franc covers only US banks' Swiss offices.

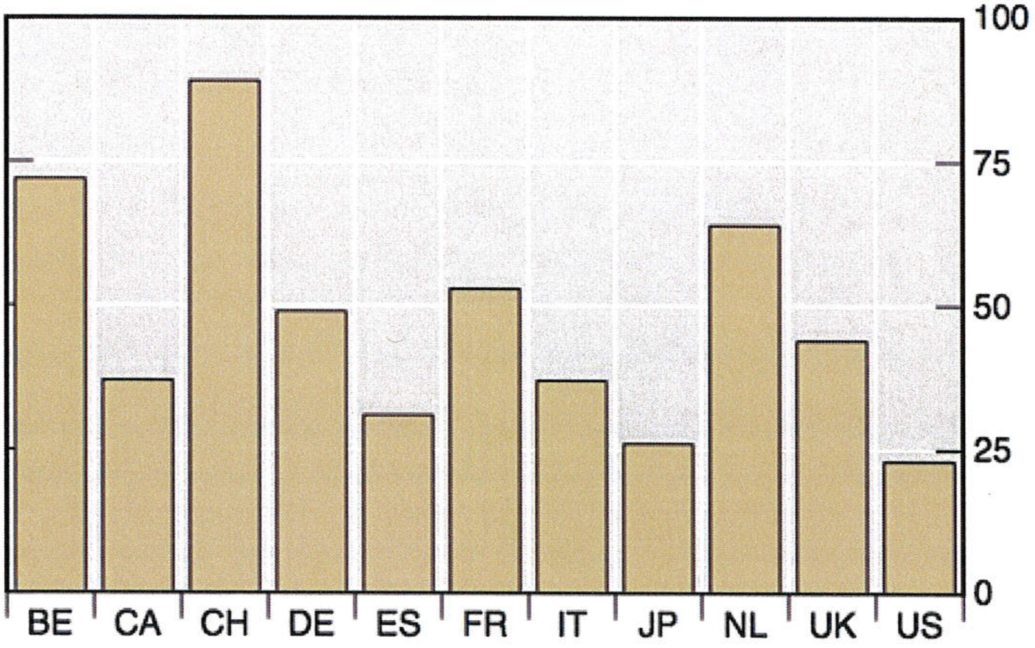
Sources: BIS consolidated statistics (immediate borrower basis); BIS locational statistics by nationality. Graph 1

http://www.bis.org/publ/qtrpdf/r_qt0903g.pdf

The international nature of the money flows also is illustrated by the next graph from the BIS that shows as of 2007 how foreign claims dominated the banking assets of several European countries, including Switzerland, Belgium and the Netherlands, with

Germany, France and the U.K. not far behind at close to 50%.
http://www.bis.org/publ/work346.pdf :

Foreign claims as a percentage of total assets[2]



The same BIS source explains some of the international capital flows:

> "In particular, US dollar and other non-euro denominated positions were important drivers of the overall increase in foreign assets of European banks. Combined US dollar assets of European banks reached some $8 trillion in 2008, including retail and corporate lending as well as holdings of US securities – Treasury, agency and structured products (Graph 9, left-hand panel). Of this amount, between $300 and $600 billion was financed through foreign exchange swaps, mostly short-term, against the pound sterling, euro and Swiss franc. Estimates indicate that the maturity mismatch ranged between $1.1 to as high as $6.5 trillion (McGuire and Von Peter (2009)). This explains the surprising funding squeeze that hit these banks' (and others') US dollar positions, and the associated serious disruptions in foreign exchange swap markets – the so- called US dollar shortage (Graph 9, right-hand panel; see Baba et al. (2008, 2009), Baba and Packer (2008))."

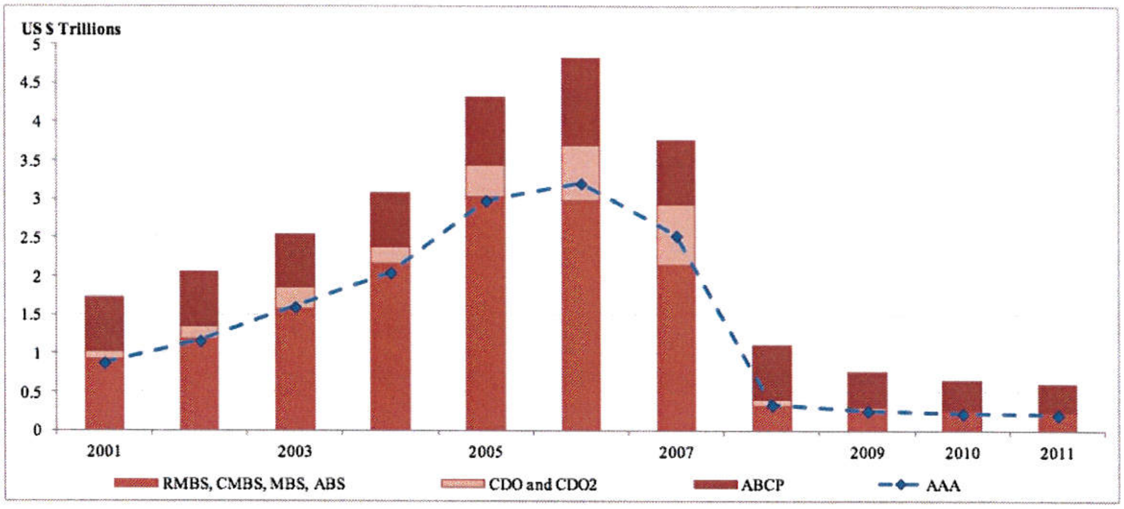
The same BIS source, debunking the theory that current account balances were a material cause of the financial crises in the U.S. and Europe explains the transatlantic funding mechanism in a way that seems to me to be accurate:

> "The focus on global current account imbalances misses the role of European banks in supporting the boom in US housing credit and the subsequent collapse of such financing. At the same time, official holdings of US Treasury securities by the countries that had been accumulating foreign exchange reserves, so much stressed

> by the ES view, hardly figured in the turmoil. The trigger for the crisis, and the mechanism underlying its propagation, was not a disorderly unwinding of global imbalances. Rather, it reflected dislocations in the chain of global intermediation."

What kinds of U.S. assets did the European banks buy? Were they real estate loans or securities derived from real estate loans? The growth of mortgage-based private label securities (mostly mortgage-related) to feed the growing level of dollars available for investment is reflected in the following graph from the IMF:

Figure 2. U.S. Private Label Securitization Market, 2001–11



Sources: IMF staff estimates based on data from JPMorgan Chase & Co., Board of Governors of the Federal Reserve Systems, the Commercial Real Estate Finance Council, and *Inside Mortgage Finance*.

Notes: MBS = mortgage-backed security; RMBS = residential MBS; CMBS = commercial MBS; ABS = asset-backed security; CDO = collateralized debt obligation; CDO2 = CDO-squared and CDOs backed by ABS and MBS; ABCP = asset-backed commercial paper. All year-end outstandings.

http://www.imf.org/external/pubs/ft/sdn/2012/sdn1212.pdf

The private label bulge of 2003-2007 unmistakably echoes the bulge in European bank liabilities, foreign bank U.S. assets, and MMF growth. The correlation is clear.

Researchers at the St. Louis Fed explicitly found that "More importantly, private-label securities and other holdings of U.S. "toxic" assets were concentrated in highly leveraged financial institutions in advanced economies such as Germany, France, Switzerland, and the United Kingdom— in short, the global European banks."

http://research.stlouisfed.org/publications/review/12/11/Noeth.pdf

Thus something extraordinary happened in the banking sector. What enabled that to happen will be discussed under the heading "III. What Caused the TransAtlantic Banking Glut?"

I have tried to evaluate the European holdings of U.S. mortgage-related assets bank by bank, but the balance sheets that I have been able to find are not sufficiently detailed to distinguish between different types of securities. [If anyone has sufficiently detailed balance sheets, I would like to see them, please.]

B. Large European Banks as Wholesale Lenders Fuelled the Housing Booms without Making Credit Judgments

The countries that experienced housing booms and busts were the countries with the highest home ownership percentages. The countries with the lower percentages, such as Germany, Switzerland, France, Netherlands and Denmark, did not experience real estate booms, despite somewhat rising home ownership rates. Instead, their banks used their excess liquidity to export disaster to other real estate markets, which of course boomeranged back on their own countries through bank bailouts, bailouts of affected sovereigns, and reduced export markets.[3]

None of the banks from the low-home-ownership countries made loans directly to borrowers in the high home ownership countries. They all lent interbank and let the locals do the dirty work. My assumption is that the banks that made the interbank loans assumed (until money got tight in August 2007) that the countries whose banks they lent to would not let their banks fail. In that judgment they turned out to be correct, although some extraordinary pressure from Germany and France was required to convince some of the debtor countries to go along with the rescues.

(One of the problems with the construct attributed to Germany that the feckless Greeks, Portuguese, Spanish etc. brought the crisis on themselves by not working hard enough is that the German, French and Dutch banks—by providing liberal amounts of credit--made it possible for the southern nations to appear to be successful without working hard. And the German, French and Dutch banks also did not work hard either. They sought to profit from what looked like a simple and practically riskless arbitrage between their low costs of money and the periphery banks' higher costs of money.)

It may be coincidental that the low home ownership countries also were the countries that had positive or in balance current accounts—but the correlation exists based on OECD data. I have not been able to establish a causal connection. See the next two graphs that show (1) home ownership rates by country, and (2) 2006 current account balances. [If anyone has a causal connection to suggest, I would be pleased to investigate it.]

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[3] An interesting question is whether the high-home-ownership countries have high home ownership rates because of governmental housing subsidies. I have not had time to research this question thoroughly, but preliminary review suggests that subsidies are not the answer. It is fairly clear that tax deductibility of home loan interest is not correlated with home ownership levels, for example. See http://www.oecd.org/eco/growth/evolution%20of%20homeownership%20rates.pdf p. 216] It appears that the prevalence of apartment living versus separate houses may be more influential than government policies. But why countries with higher levels of apartment dwelling should have had more favorable current accounts is a mystery to me, though such a coincidence across numerous countries begs for an explanation. [If you have one to suggest, I will try to investigate it.]

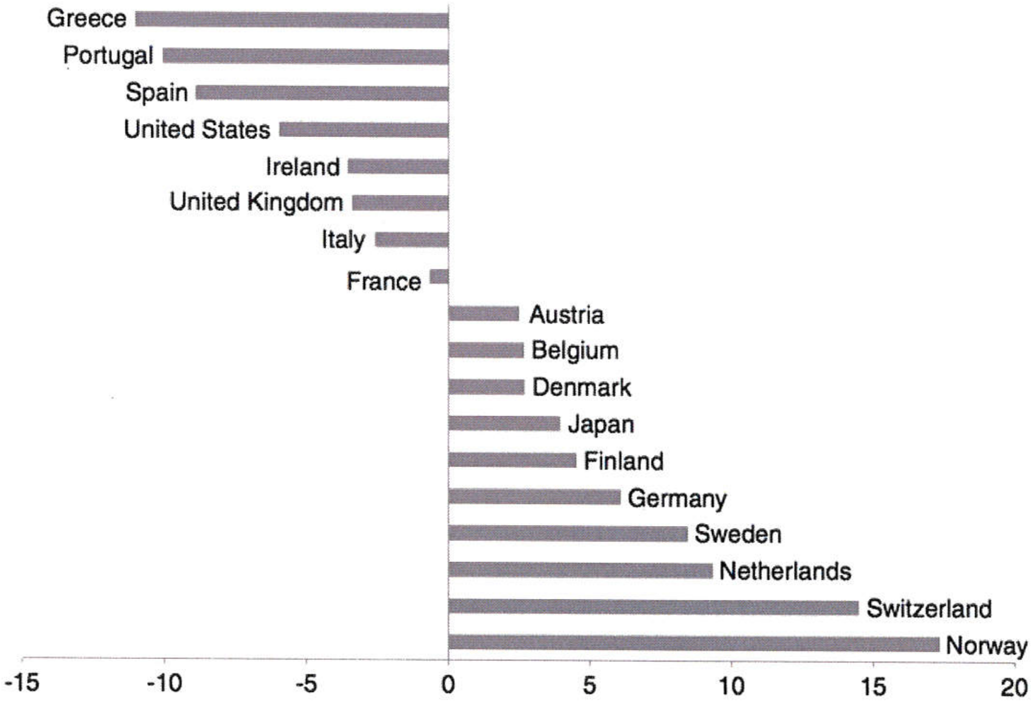
Table 1. **Aggregate homeownership rates in selected OECD countries**

	Circa 1990s[1]	2004[2]
Australia	71.4	69.5
Austria	46.3	51.6
Belgium	67.7	71.7[3]
Canada	61.3	68.9
Denmark	51.0	51.6
Finland	65.4	66.0
France	55.3	54.8[3]
Germany	36.3	41.0
Italy	64.2	67.9
Luxembourg	71.6	69.3
Netherlands	47.5	55.4[3]
Spain	77.8	83.2
Switzerland	33.1	38.4
United Kingdom	67.5	70.7
United States	66.2	68.69

1. 1987 for Austria, 1990 for Spain, 1991 for Italy, 1992 for Denmark and Switzerland, 1994 for Canada, France, Germany and the Netherlands, 1995 for Australia, Belgium and Finland, 1997 for Luxembourg and the United States.
2. 2003 for Australia, 2007 for Germany and the United States.
3. The data are particularly dated for Belgium (2000), France (2000) and the Netherlands (1999).

Sources: OECD, Luxembourg Income Study (LIS), GSOEP and the American Housing Survey.

Figure 5. Global Imbalances



Note: This figure shows global imbalance, measured as the current account balance in 2006. The current account deficit data are from the Organization for Economic Cooperation and Development's Economic Outlook database.

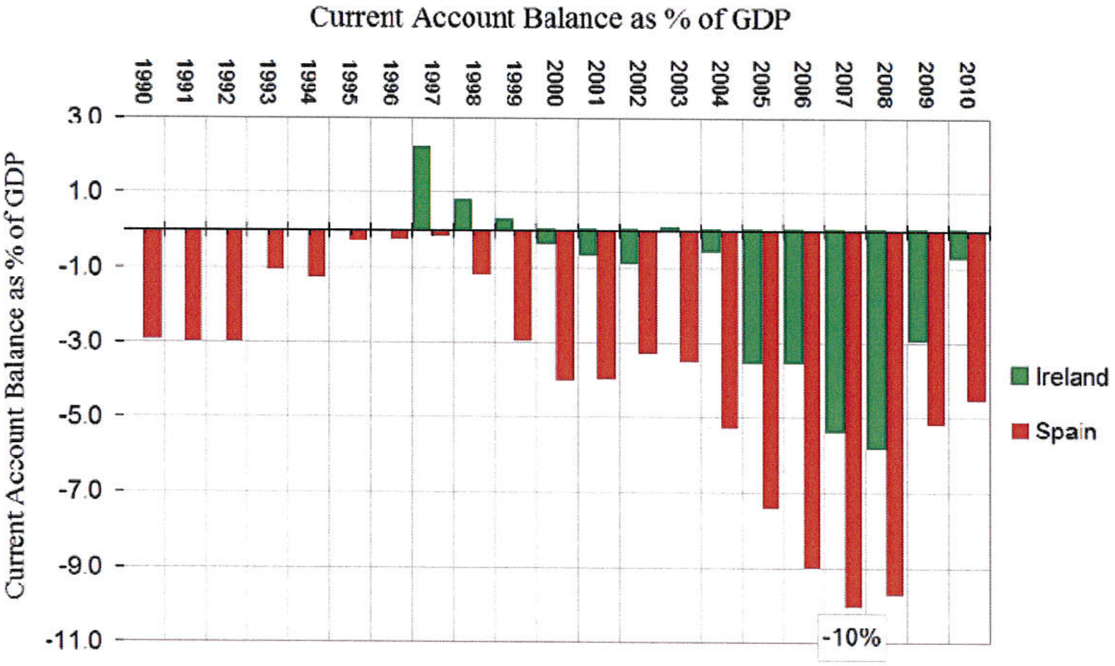
It is apparent that the banks from the positive current account countries lent to banks from the negative current account countries. That sort of "recycling" is not unusual. Indeed, the recycling of euros reminds me of the U.S. banks' recycling of petrodollars in the late 1970s. The recyclers lent wholesale, relying, in effect, on the credit and investment judgments of the recipient banks and governments. It appears that this sort of recycling may tend to end badly.

C. Individual Countries' Banks

When we shine a closer light on individual countries' banks, we can begin to understand how the countries' current account positions, borrowing proclivities, and bank regulatory schemes interacted. Ireland is the poster child for excessive banking growth, fuelled by foreign cash and weak regulation, resulting in runaway property prices, inevitably leading to a crash of property values, bad debts, and bank failures. Ireland also is the best example of German banks' exposures preventing the Irish people from letting their banks fail, substituting instead a bailout that continues to threaten the country's economic future. The Irish might have got the message about German banks' complicity in their plight more clearly and therefore defended themselves economically, except that early-on they did not—as almost everyone in such a situation does not—understand the size of the losses to come. Ireland also confirms that although there are many ways to provide excessive credit to the property sector, they all lead to the same basic disaster.

Spain is in many ways similar to Ireland. Like Ireland, Spain did not borrow excessively as a sovereign. But banks from the U.K., France and Germany pumped up the Spanish financial sector, enabling it to fund a property boom. In the case of Spain, the boom masked the underlying lack of competitiveness of the economy. Thus, when the property bust came and the props were knocked out from under the economy, the ensuing recession and accompanying steep budget shortfalls brought the country to the brink of needing a bailout. In the case of Spain, one twist was that the large banks were able to raise capital and to survive, but the regional cajas, being local political bodies that lent strongly into the boom, were crushed financially. As usual, recognizing the size of the losses too slowly resulted in the government taking on more liabilities than it expected in order to deal with the banking losses. That process is ongoing. As in Ireland, the credit and property booms inevitably led to busts. But Spanish bank regulation appears in many ways to have been among the better systems in the world.

The probable relationship between the credit and property booms and the negative current accounts of Ireland and Spain are suggested by the following graph of their current accounts:



The countries that had positive current account balances, such as Germany, Netherlands and Switzerland, suffered from the booms and busts differently. In large measure, it was *their* banks that funded the booms and therefore suffered (or would have suffered but for bailouts) the consequences of the local banks' loan losses. The Germans, Dutch and Swiss were not so lucky with their U.S. property investments because those were made through conduits (SPEs) that did not have guarantees by solvent banks or guarantees by banks that a government bailed out. Instead, the U.S. government bailed out the investing European banks' liquidity more directly through swap lines with European central banks, but the home countries were left to replenish depleted capital. (Graphs illustrating that liquidity bailout appear later on.)

Italy, like every other country, is a special case once you get past the generalities. All suffer from the credit-induced boom and bust syndrome. But after that, they are different. Like Greece and Spain, Italy has been a serial sovereign defaulter for hundreds of years. Like Spain, Italy depends a great deal on its SMEs for employment and stability. In Part V I will explore how Italy's SMEs are funded post-2008 to evaluate the impact of weakened banks on the ability of SMEs to run their businesses profitably.

The U.K. banks got pretty much all of it wrong. The U.K. was a current account deficit country, but its banks nevertheless lent to the Irish banks, bought U.S. toxic assets, set up SIVs, and lent into the U.K.'s own property boom. The U.K. government bailed them all out, with a gold star going to Barclays for having caused the most damage but having survived without government assistance nevertheless, proving, perhaps, that it is all right to be too clever by half.

France is an interesting tale in the making. Its current account was roughly in balance. The French banks grew rapidly; they were funded by U.S. MMFs and ABCP; they bought banks in all the wrong countries and lent to banks in all the wrong countries—but they seem to have survived without government injections of capital.

I am not going to try to cover Slovenia, but there are indications that Slovenia suffered from the same syndrome as Ireland: "When Slovenia was admitted to the euro club in 2007, the single currency helped fuel easy credit and a construction boom. It was the same sort of heady access to cheap money that led to economic disasters in Ireland and Spain." NYT. http://www.nytimes.com/2013/05/06/business/global/06iht-slovenia06.html?pagewanted=2&_r=0&hp

At the end of this sad country-by-country survey, I will contrast the European post-2008 experiences with the U.S. experience and suggest some possible reasons why the U.S experience has been different.

Ireland

In Ireland we can see a credit boom that was mainly to households, but to corporates as well, that was fuelled largely by deposits and other accommodations to local banks by foreign banks and that did not involve government borrowing. The run-up in credit was reflected in the broader data presented above, but it is even more evident when we review data from the Bank of Ireland. Here are one graph from Prof. Shin and three graphs from the Bank of Ireland that illustrate how rapid the growth was on both sides of Irish banks' balance sheets in the key years of 2004-2007.

Any bank regulator worth her salt should have seen that such rapid credit growth naturally would lead to inflated prices for collateral and a consequent eventual sharp decline in the value of collateral, leading to large losses for the banks. Such losses might have been cushioned by adequate provisioning and adequate capital, but neither the provisioning regime nor the capital regime was designed to accomplish that goal. (I would allege that they were designed to accomplish exactly what they did accomplish: rapid credit expansion and rising property values.)

Claims of European banks on Counterparties in Ireland

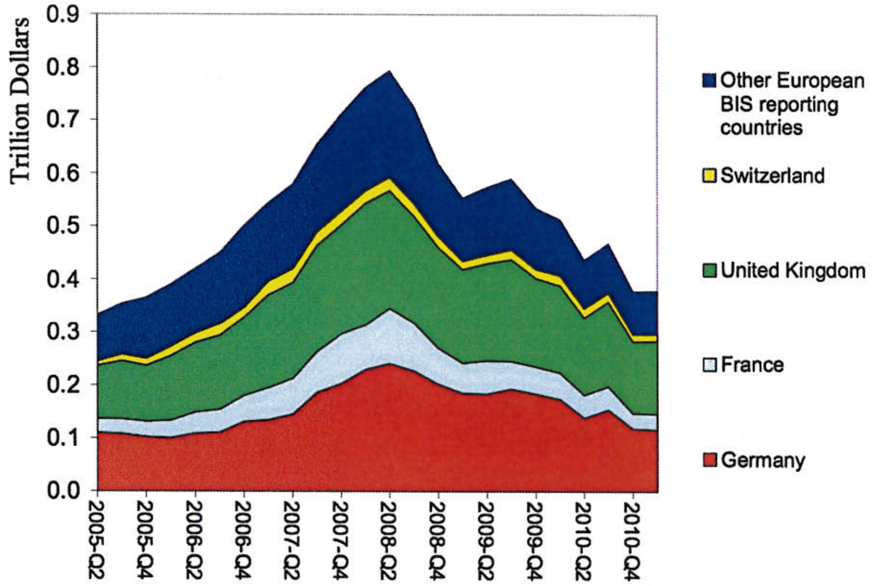


Figure 42. Foreign claims of European BIS-reporting banks on counterparties in Ireland (Source: BIS consolidated banking statistics, Table 9D)

http://www.princeton.edu/%7Ehsshin/www/mundell_fleming_slides_april_2012.pdf

Chart 4: Irish Resident and Non-Resident Private-Sector Deposits

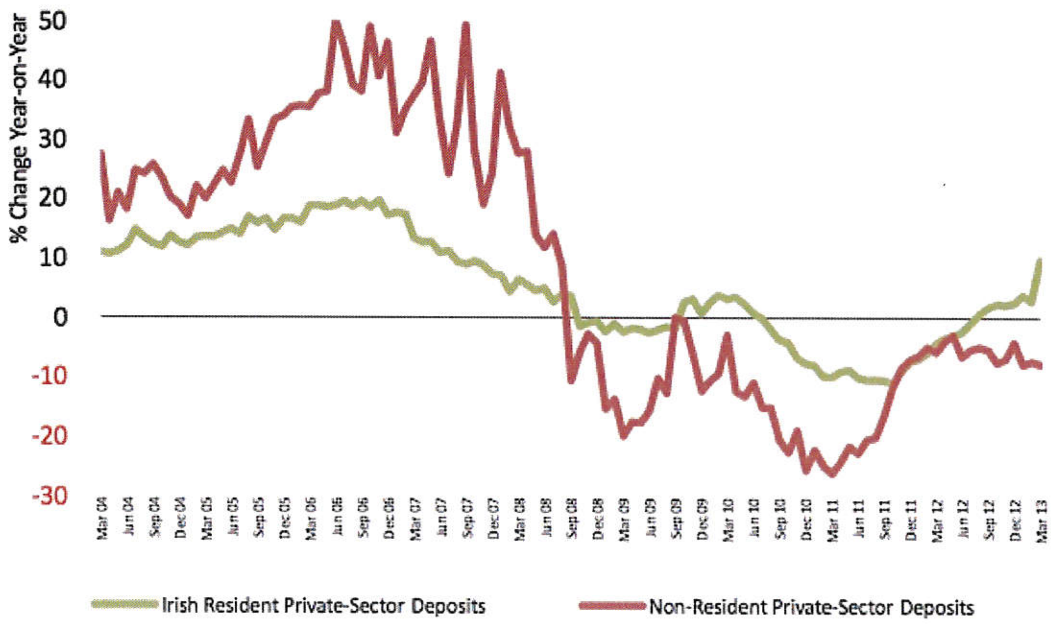
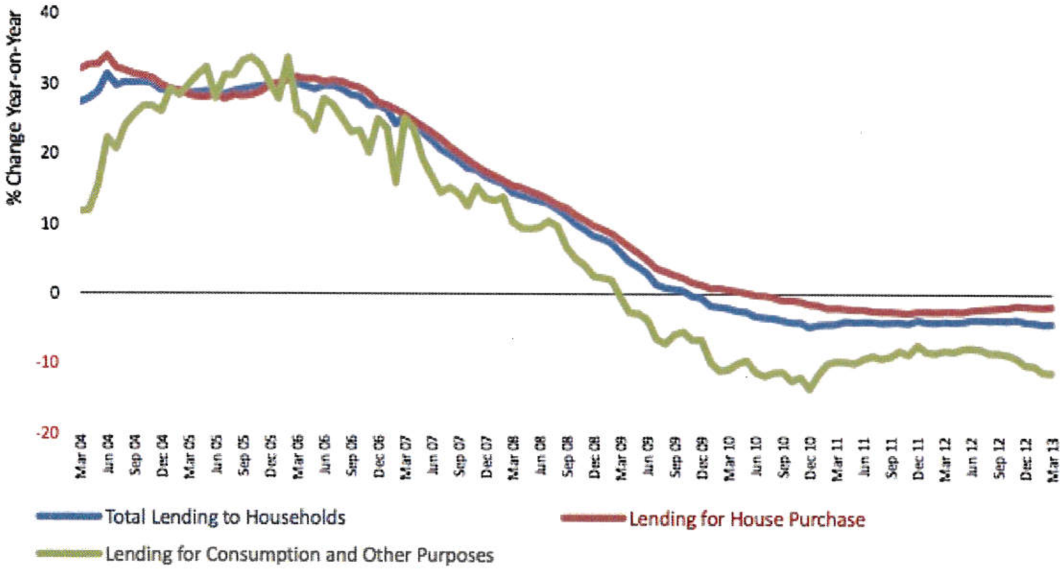
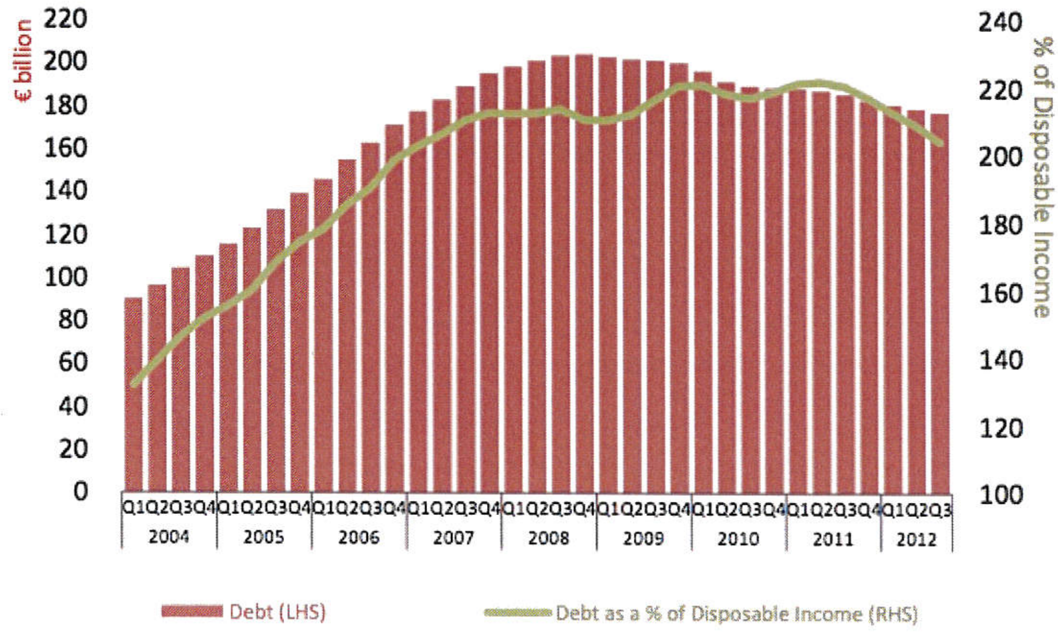


Chart 1: Lending to Irish Resident Households



As you can see, foreigners fuelled the Irish credit boom. Lending so much to the Irish banks should have been the height of folly for the German, Swiss and U.K. banks, but in the world of realpolitik, powerful banks from powerful countries get their assets protected.

Chart 8: Household Debt



http://www.centralbank.ie/polstats/stats/summarychart/Documents/ie_financial_statistics_summary_chart_pack.pdf
The funding of Irish banks by banks from elsewhere is Europe is truly astounding in hindsight. Who had ever heard of Depfa Bank? An Austrian bank had, it seems (for those who are interested, Austrian banks often have participated in global over-lending):

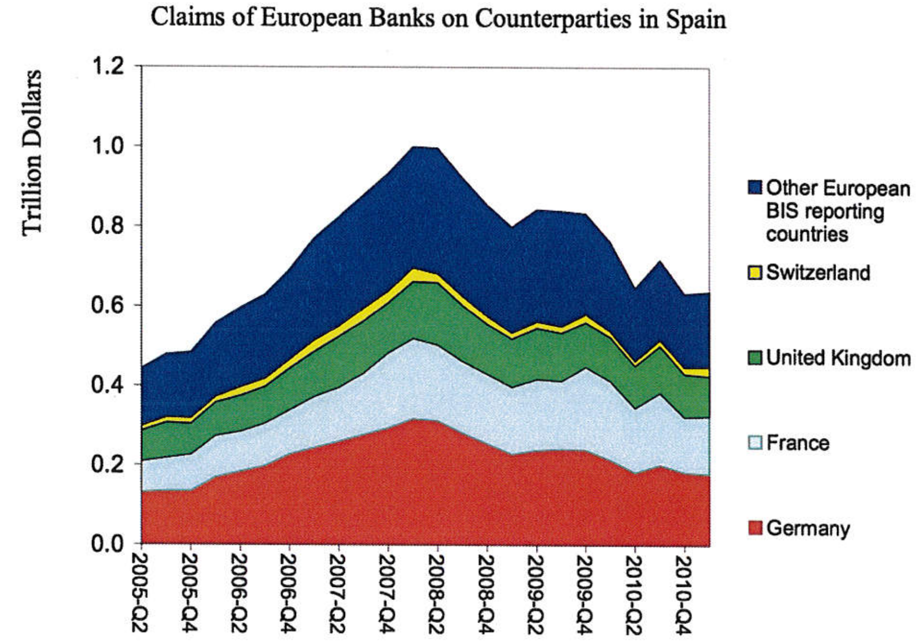
> "At the end of the third quarter of 2010, not long before Dublin requested a bailout, German banks had $208.3 billion in total exposure to Ireland, according to data from the Bank for International Settlements. That includes $57.8 billion in exposure to Irish banks, an amount exceeding British and French banks' exposure to Irish lenders combined.
>
> "Dublin campaigned to impose haircuts on banks' senior bondholders to reduce the amount of money the state would have to pump into Irish banks. The ECB refused, fearing contagion.
>
> "This is how the "cheapest bailout in the world," in the infamous words of the late former finance minister, Brian Lenihan, ended up among the most expensive. Dublin made its share of blunders in the bank-rescue process. But the Irish bailout's total price tag reflects actions compelled by the ECB at the behest of German financial institutions. Ireland shouldn't have to carry that weight alone." http://online.wsj.com/article/SB10001424127887324624404578255103590739948.html?mod=ITP_opinion_0 [I think the *WSJ* assessment is on the mark.]
>
> "Depfa Bank, a Dublin-based lender that was acquired by Hypo last year and specializes in government lending, is at the center of its problems. Depfa underwrote a package of U.S. municipal bonds that were subsequently downgraded by ratings agencies. That step obliged Depfa to buy the bonds back, a contractual requirement that would create almost immediate liquidity problems at Hypo itself, given the difficulty of getting short-term funding in today's credit markets.
>
> Banks from outside Hypo uncovered the problem after the bailout plan was completed last week, and they soon realized that the €35 billion that was supposed to sustain the bank through the end of 2009 was inadequate. Instead, it would need €50 billion by the end of this year and €10 billion in 2009." http://www.nytimes.com/2008/10/05/business/worldbusiness/05iht-hypo.4.16708030.html?scp=1&sq=depfa%20bank&st=cse

Spain

Spanish banking supervisors have received a lot of bad press for their handling of the post-2008 crisis, largely because of creating Bankia out of several failed cajas then letting Bankia go public to try to shore up its capital. Actually, that probably was a good plan that was implemented badly because Spanish officialdom did not recognize the depth of losses on real estate loans—a frequent reason for post-bust policy failures in many countries in many crises. But pre-bust, the Spanish authorities had adopted two very good anti-cyclical policies that just were insufficient given the waves of money flowing in. First, unlike the U.S., Germany and several other countries, Spain did not let their banks remove securitized assets from their balance sheets. Second, Spain adopted a unique provisioning regime that caused its banks to set aside higher loan loss reserves than other countries' banks. Sadly, even the enhanced reserves were not enough—perhaps a lesson about provisioning.

Spanish banks traditionally had a high ratio of deposits to loans, substantially exceeding 1:1. But in the 2003-2007 period, that ratio changed to less than 1:1. At the same time, although the apparent regulatory capital ratio of the Spanish banking system stayed the same, its ratio of capital to assets (not risk based) was practically cut in half compared with the 1990s. The median leverage ratio for the 2003-207 period was less than .5%!

Here is where the foreign money flowing into Spain came from, with Germany, France and the U.K. banks in the lead, but basically money flowing in from all over Europe:



re 41. Foreign claims of European BIS-reporting banks on counterparties in Spain (Source: BIS olidated banking statistics, Table 9D)

The story of the Spanish banks is two stories: (1) The big international banks, Santander and Vizcaya, and (2) the smaller banks and cajas. [I need to learn the story of the cajas better.]

The bank of Spain, the central bank, publishes many working papers. Here is an excerpt from one that seems to me to help to understand the Spanish crisis:

> "As for the measurement of the industry's technical progress, we find that Spanish banks participated of many of the causes that lead to the financial crisis after Spain joined the EMU. More than two thirds of the reported growth in banks' productivity was at the expense of fuelling a housing and real estate credit bubble, creating a liquidity gap between loans and deposits financed with MBS and with interbank loans and increasing financial leverage. This occurred at the same time

that the industry maintained a steady annual growth rate in technical progress of 2.8%, similar to the rate in the pre Euro period."
http://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSeriadas/DocumentosTrabajo/12/Fich/dt1239e.pdf

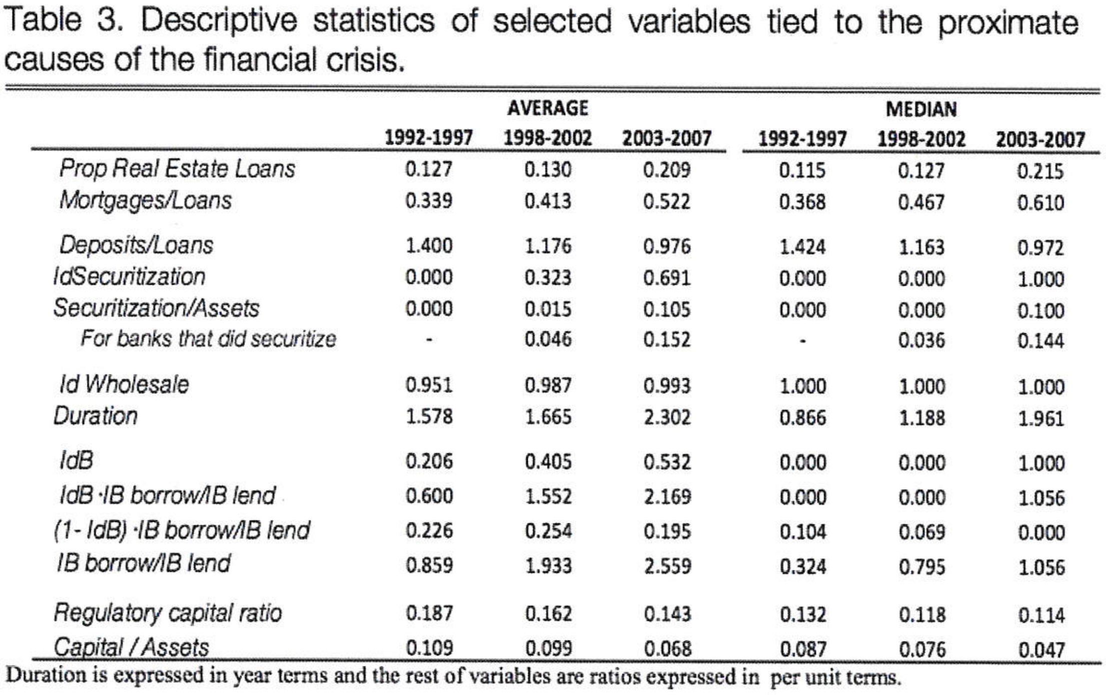
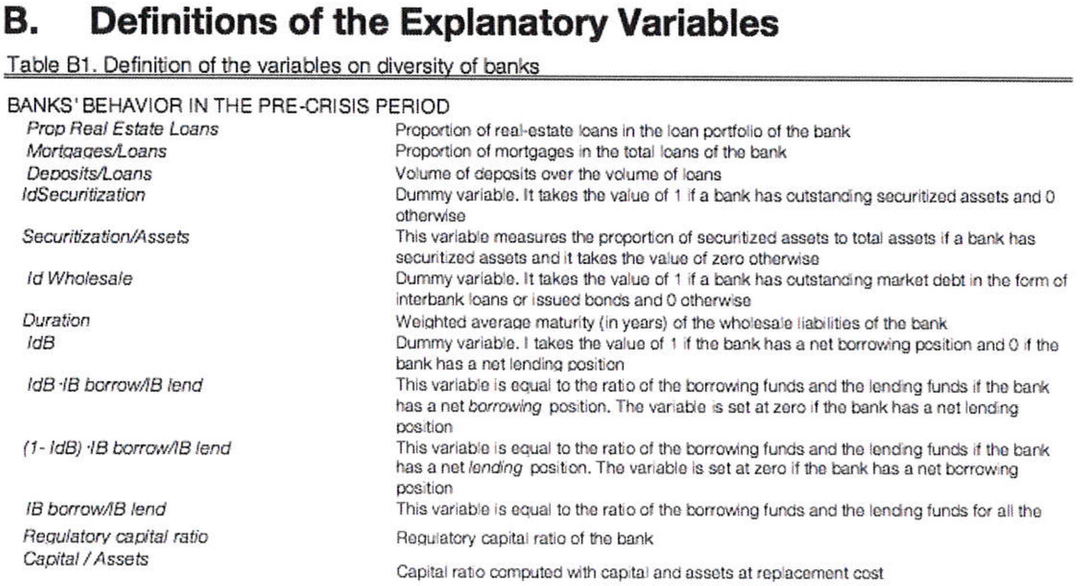


Table 3. Descriptive statistics of selected variables tied to the proximate causes of the financial crisis.

	AVERAGE			MEDIAN		
	1992-1997	1998-2002	2003-2007	1992-1997	1998-2002	2003-2007
Prop Real Estate Loans	0.127	0.130	0.209	0.115	0.127	0.215
Mortgages/Loans	0.339	0.413	0.522	0.368	0.467	0.610
Deposits/Loans	1.400	1.176	0.976	1.424	1.163	0.972
IdSecuritization	0.000	0.323	0.691	0.000	0.000	1.000
Securitization/Assets	0.000	0.015	0.105	0.000	0.000	0.100
For banks that did securitize	-	0.046	0.152	-	0.036	0.144
Id Wholesale	0.951	0.987	0.993	1.000	1.000	1.000
Duration	1.578	1.665	2.302	0.866	1.188	1.961
IdB	0.206	0.405	0.532	0.000	0.000	1.000
IdB ·IB borrow/IB lend	0.600	1.552	2.169	0.000	0.000	1.056
(1- IdB) ·IB borrow/IB lend	0.226	0.254	0.195	0.104	0.069	0.000
IB borrow/IB lend	0.859	1.933	2.559	0.324	0.795	1.056
Regulatory capital ratio	0.187	0.162	0.143	0.132	0.118	0.114
Capital / Assets	0.109	0.099	0.068	0.087	0.076	0.047

Duration is expressed in year terms and the rest of variables are ratios expressed in per unit terms.



B. Definitions of the Explanatory Variables

Table B1. Definition of the variables on diversity of banks

BANKS' BEHAVIOR IN THE PRE-CRISIS PERIOD	
Prop Real Estate Loans	Proportion of real-estate loans in the loan portfolio of the bank
Mortgages/Loans	Proportion of mortgages in the total loans of the bank
Deposits/Loans	Volume of deposits over the volume of loans
IdSecuritization	Dummy variable. It takes the value of 1 if a bank has outstanding securitized assets and 0 otherwise
Securitization/Assets	This variable measures the proportion of securitized assets to total assets if a bank has securitized assets and it takes the value of zero otherwise
Id Wholesale	Dummy variable. It takes the value of 1 if a bank has outstanding market debt in the form of interbank loans or issued bonds and 0 otherwise
Duration	Weighted average maturity (in years) of the wholesale liabilities of the bank
IdB	Dummy variable. I takes the value of 1 if the bank has a net borrowing position and 0 if the bank has a net lending position
IdB ·IB borrow/IB lend	This variable is equal to the ratio of the borrowing funds and the lending funds if the bank has a net *borrowing* position. The variable is set at zero if the bank has a net lending position
(1- IdB) ·IB borrow/IB lend	This variable is equal to the ratio of the borrowing funds and the lending funds if the bank has a net *lending* position. The variable is set at zero if the bank has a net borrowing position
IB borrow/IB lend	This variable is equal to the ratio of the borrowing funds and the lending funds for all the
Regulatory capital ratio	Regulatory capital ratio of the bank
Capital / Assets	Capital ratio computed with capital and assets at replacement cost

http://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSeriadas/DocumentosTrabajo/12/Fich/dt1239e.pdf

I need to do more work on Spain. More intimate knowledge may yield better insights. [Any suggestions for good sources will be welcome.]

France

The following graphs depict an astonishing growth spurt for the major French banks from 2004 through 2008. Even the financial guns of August 2007 did not slow their growth. (Credit Agricole had begun its growth spurt earlier in 2002.) BNP grew threefold, substantially all based on wholesale funding. Societe Generale doubled in size, also based on wholesale funding, as did Credit Agricole.

As suggested by the graph comparing Societe Generale total assets with its risk-weighted assets, the French banks grew in ways that took advantage of regulatory capital rules under Basel I and II that permitted them to grow with no substantial new capital. [One should note that European accounting, unlike American accounting, required that derivatives be shown of the balance sheet for financial reporting purposes, and that may be responsible for some of the apparent balance sheet growth. Is that a material factor in these appearances? Further study needed. Opinions solicited]

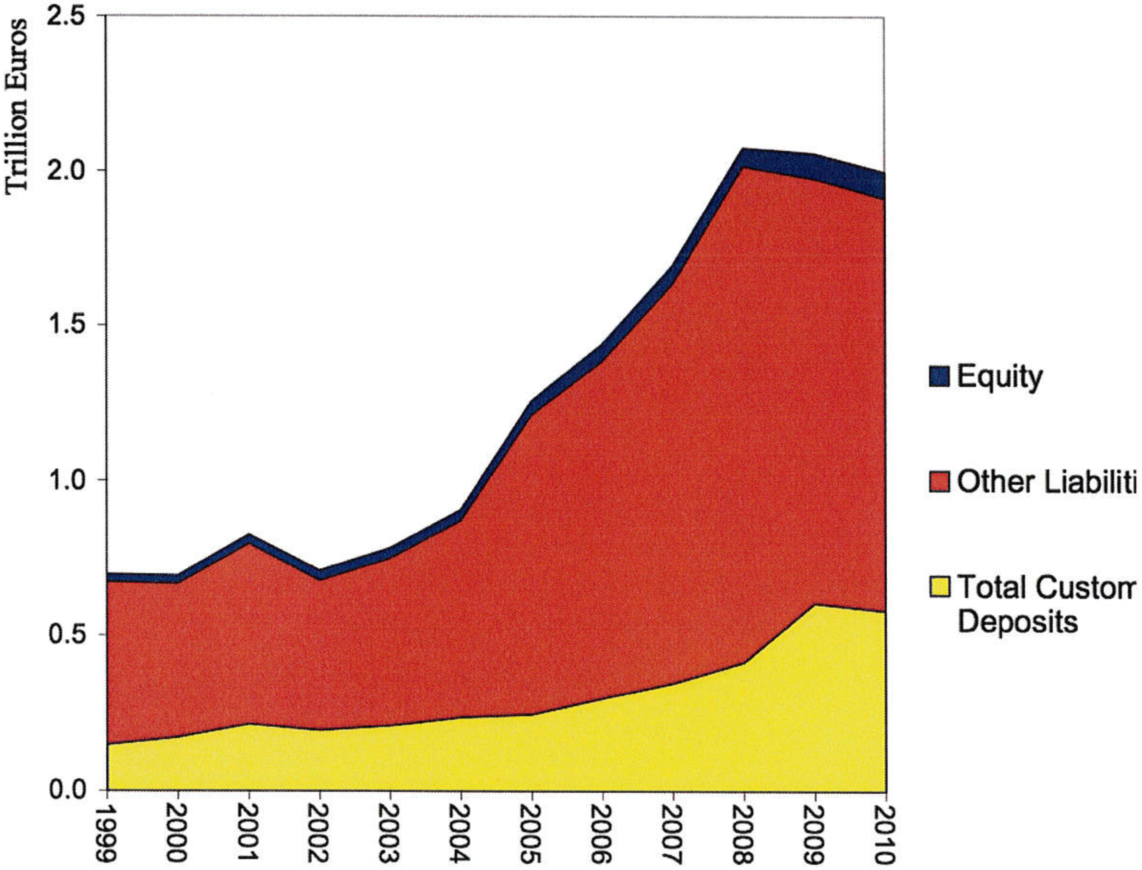


Figure 29. BNP Paribas total liabilities (Source: Bankscope)

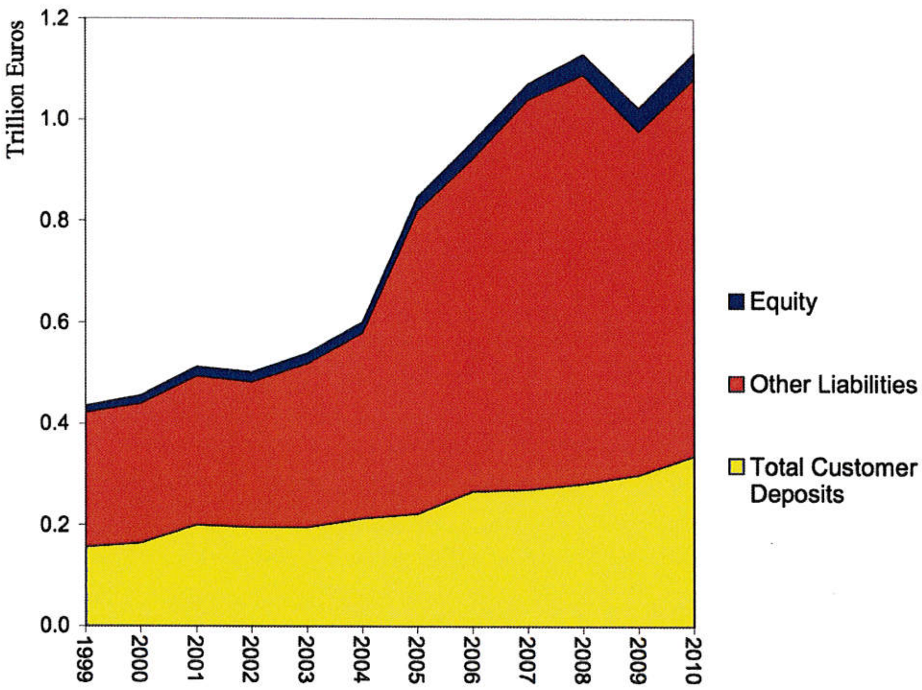


Figure 36. Société Générale liabilities 1999 - 2010 (Source: Bankscope)

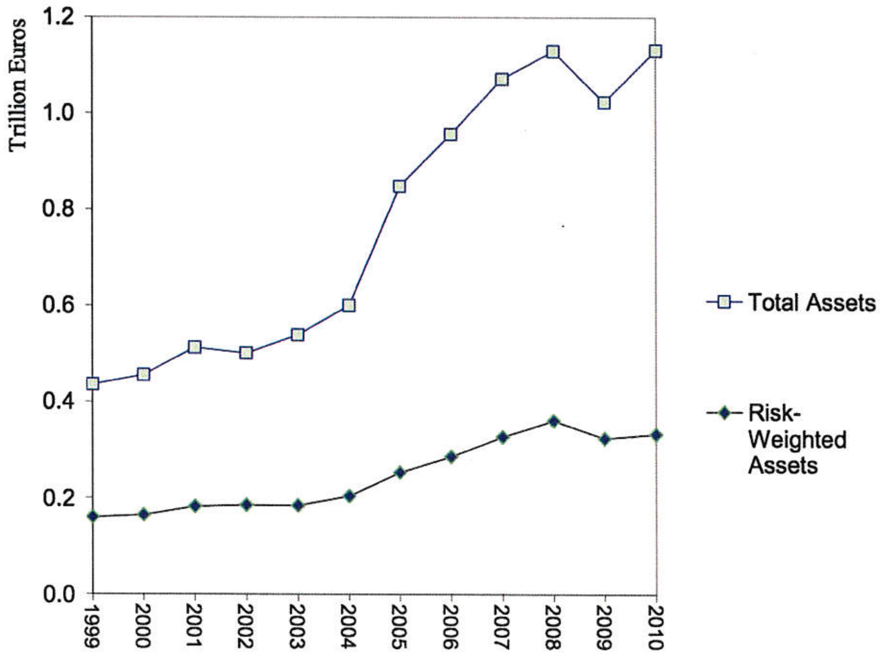


Figure 37. Société Générale risk-weighted assets and total assets (1999 - 2010) (Source: Bankscope)

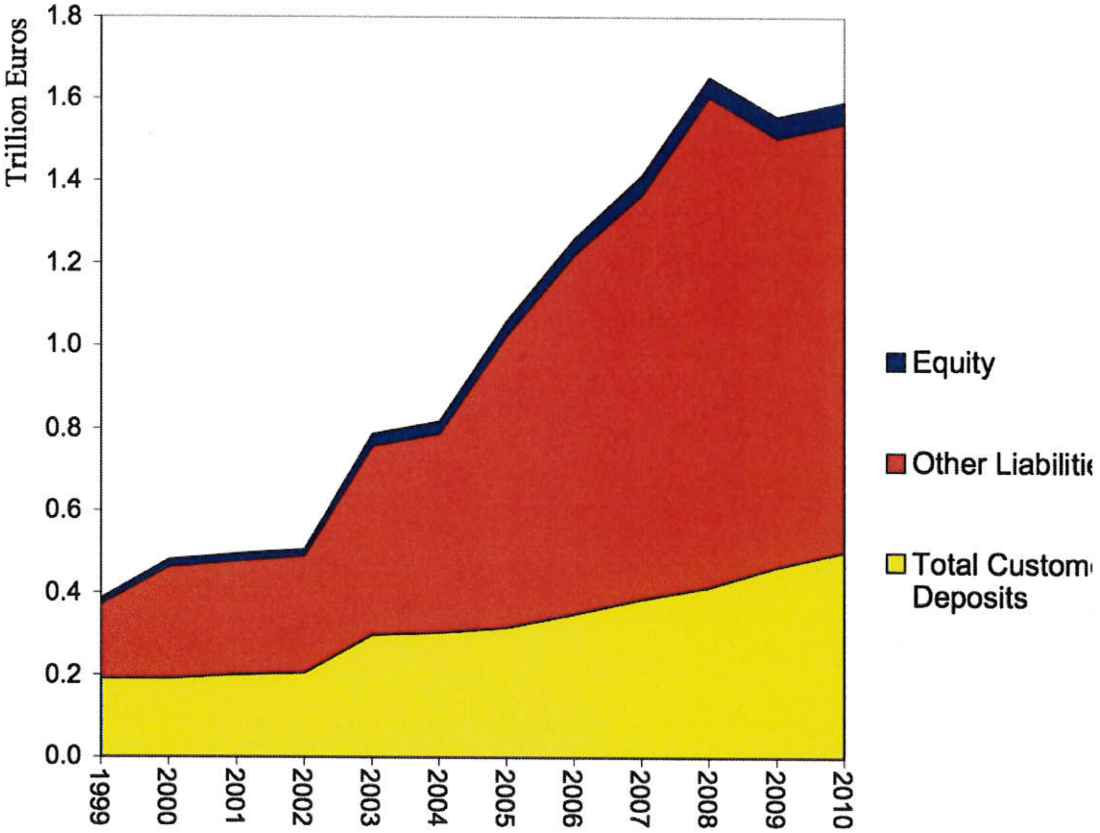
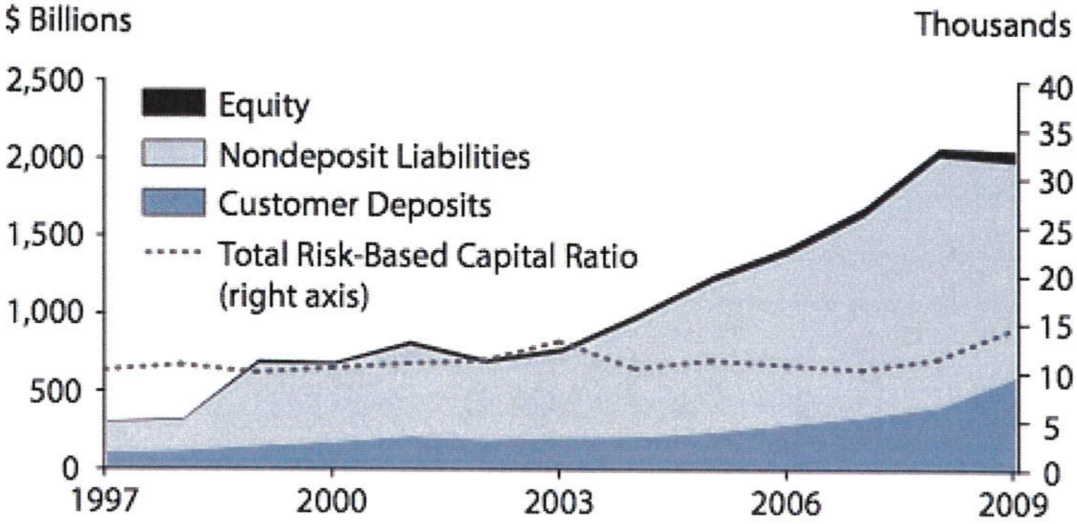


Figure 35. Credit Agricole liabilities 1999 - 2010 (Source: Bankscope)

BNP Paribas



http://research.stlouisfed.org/publications/review/12/11/Noeth.pdf

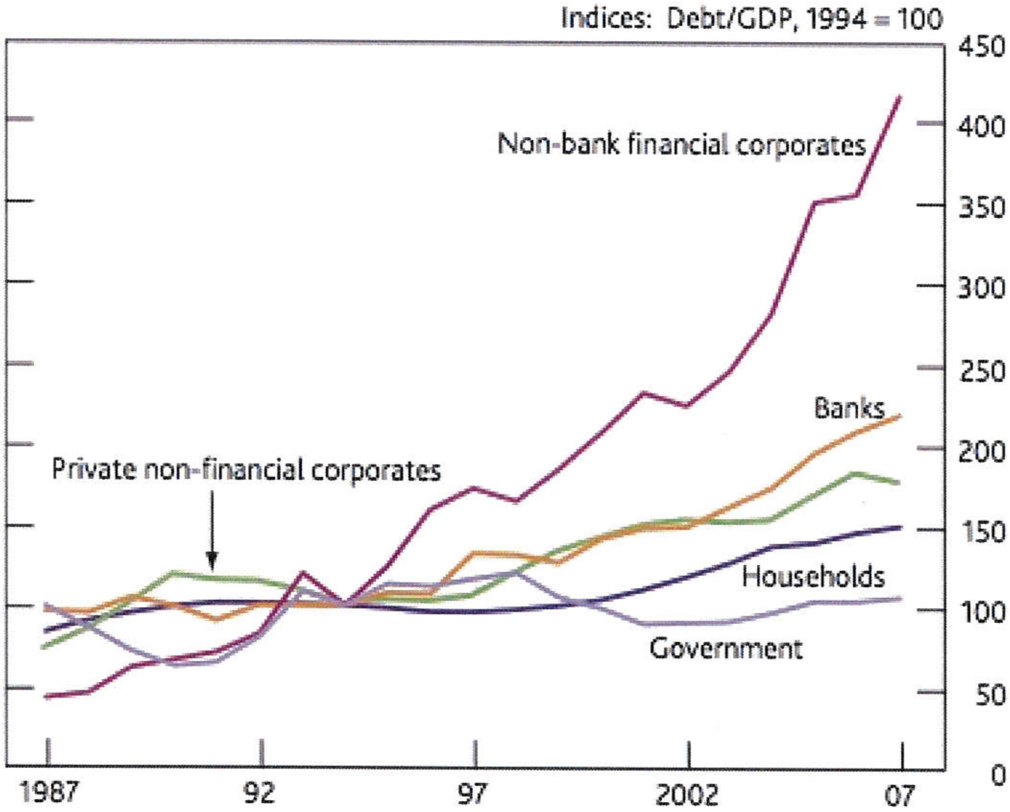
The French banks lent almost indiscriminately to banks and sovereigns in Greece, Italy, and Spain. But since their lending was to banks and sovereigns, the bailouts of banks and sovereigns permitted the French banks to remain solvent, even though they have suffered severe losses.

United Kingdom

U.K. borrowing was fuelled not only by bank growth, which was substantial, but also by easy securitization rules that permitted banks to remove assets from their balance sheets while still keeping much of the risk, as the bank of England later found out. The following graph from the Bank of England shows how the conduits (and others) in the non-bank financial corporates sector funded a vast increase in U.K. lending. The lax policies regarding off-balance-sheet financing of course permitted the U.K. banks to fund not only the U.K. housing boom but the Irish banks and their credit binge and a part of the U.S. credit binge as well.

(It is no wonder that the British are so hepped on curtailing the shadow banking system. Their lax regulatory regime permitted the banks to create a vast shadow system that actually was them. Good regulatory accounting was all that was needed to prevent such an occurrence. But love of easy credit prevailed once again.)

Chart 4 UK sectoral debt/GDP



Sources: ONS and Bank calculations.

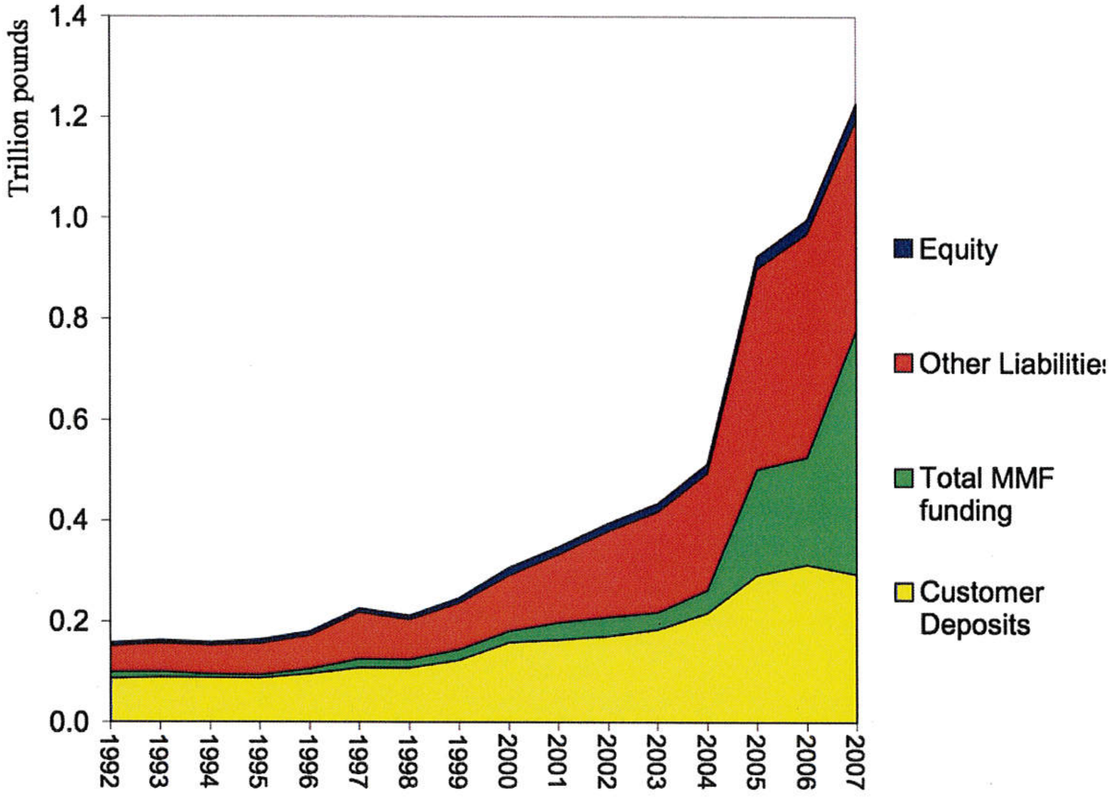
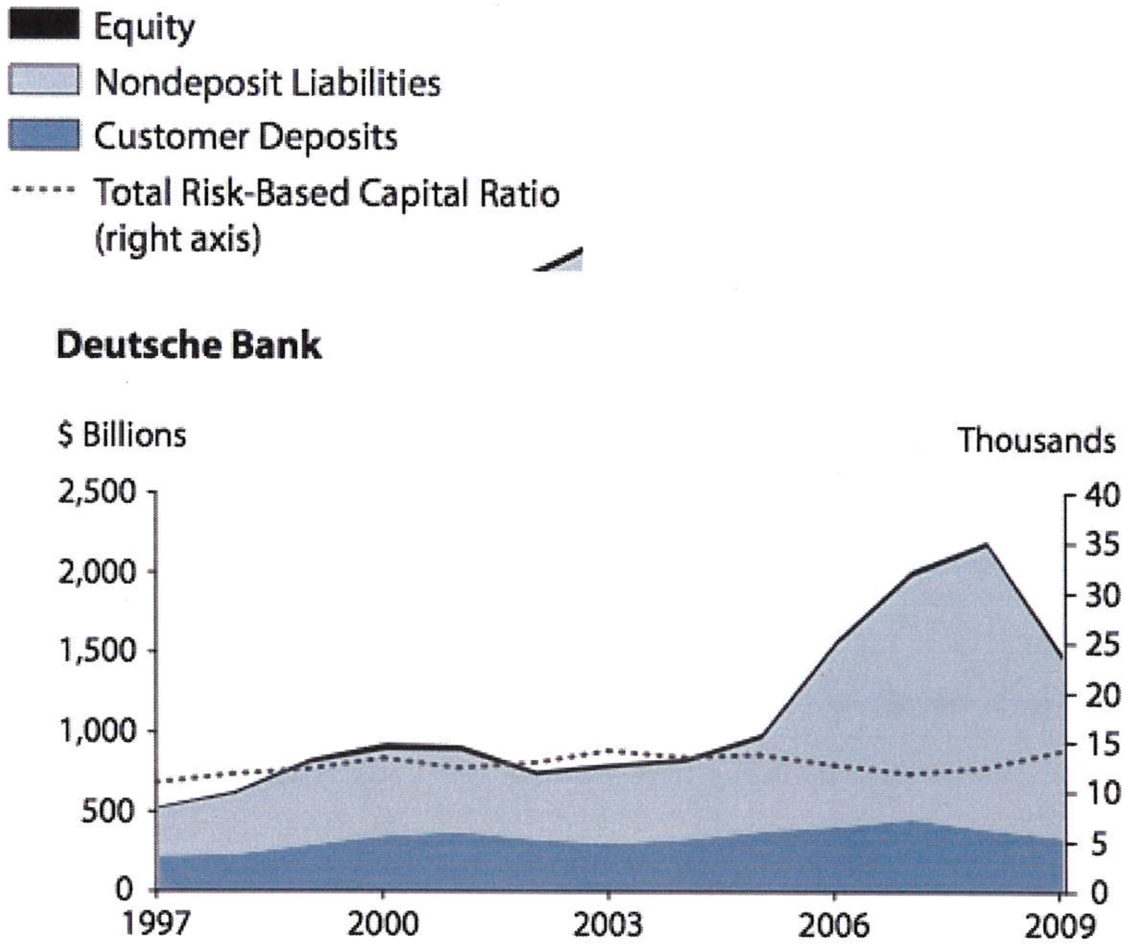


Figure 16. Total Liabilities of Barclays (1992 - 2007) (Source: Bankscope)

Barclay's grew threefold in the crucial four-year period 2004-2007, accentuating the role that U.K. banks played in generating the boom. The Barclays data illustrates how the U.K. banks fuelled the asset booms in the many countries into which they lent, both directly and indirectly. The liabilities came not only from MMFs, but also from various other sources. Deposits were not a material factor. Any policy maker that wants to go back to balance sheets that looked like Barclays' in 2007 would be quite daft. Nevertheless, there is much handwringing about lack of interbank funding and lack of lending to several sectors, and U.K. policy makers are making efforts to boost lending to several sectors.

Germany

The large German banks grew rapidly in 20004-2007, almost as rapidly as the French and Swiss banks, though the hockey-stick growth of Barclays remains unmatched. Here are graphs of Deutsche Bank and Commerzbank growth:



http://research.stlouisfed.org/publications/review/12/11/Noeth.pdf

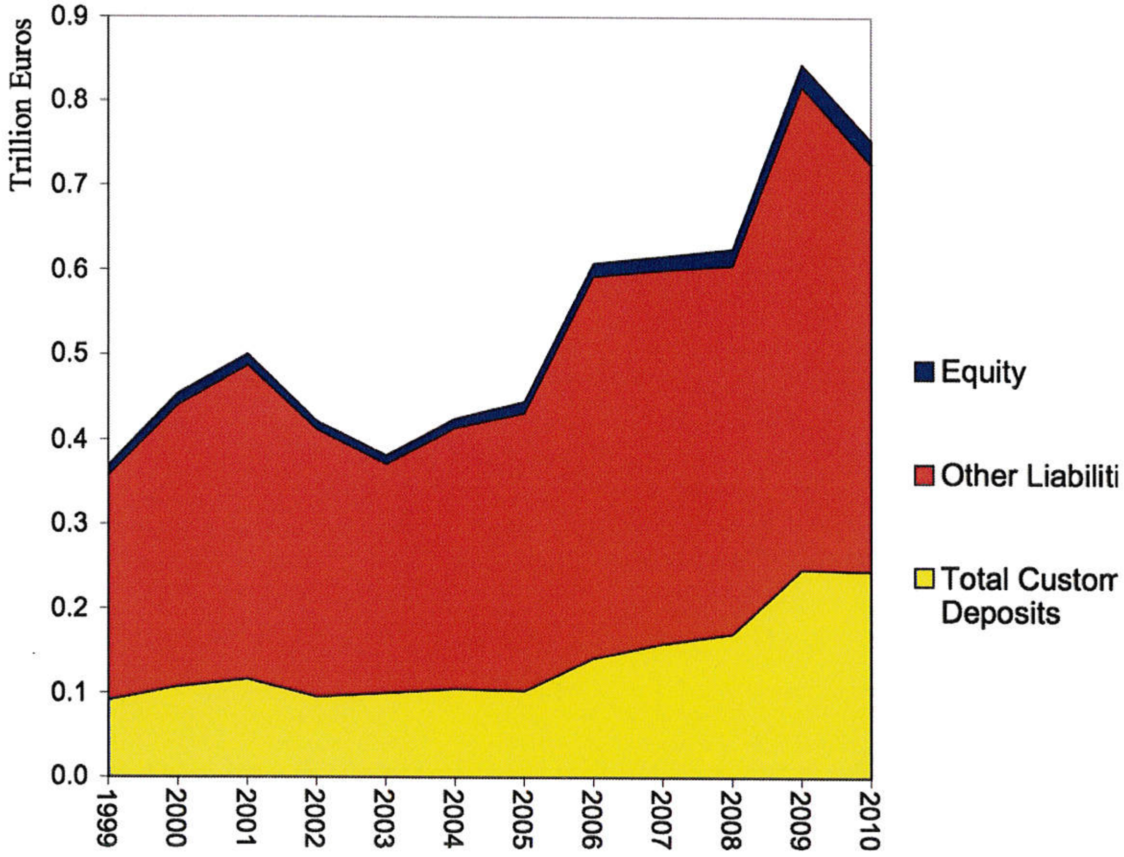


Figure 32. Commerzbank liabilities 1999 - 2010 (Source: Bankscope)

Credit growth to German non-financial entities and consumers did not soar, even though Germany's major banks had no trouble raising funds. Indeed, the Landesbanken, so desperate for income because of the lack of domestic lending opportunities, formed the Irish SIVs that invested not only in U.S. mortgage-backed securities but also in U.K. and other similar paper, adding fuel to the credit growth fires in those countries but not in Germany.

One reason that German credit growth did not soar is that less than 50%--the lowest percentage of any developed nation's—of Germans owned their own homes. This may be due in part to Germany subsidizing its rental market more than its home ownership market. Apparently, the percentage of home ownership in Germany has increased since 2010, as low interest rates have made it possible to borrow more money.

A reason that the German banks sought to invest abroad in the naughties is that competition in the German credit markets is extremely strong; therefore better spreads were available in other markets. According to the FT:

> "The German domestic market has some of the lowest margins in world banking. It is crowded with 430 local savings banks and 1,200 local co-operatives that provide finance to small businesses at favourable rates. Low margins drove many German banks into foreign markets in the first place, says Moody's, the

credit rating agency. 'Now they are re-focusing on domestic operations, which reduces risk exposures but will add to structural margin pressure, raising concerns about the sustainability of some bank franchises,' it says in a recent report."

"Moreover, German companies in general need less bank finance. Many have shored up their balance sheets, aided by healthy profits and reduced deal making. According to KfW, the German development bank, the amount of equity in Mittelstand companies has improved almost 50 per cent over the past decade.

"In addition, larger German companies have been able to issue bonds at low rates and an incipient market in bond issuance for smaller German companies has helped some to issue high-yield debt pitched at small investors. http://www.ft.com/intl/cms/s/0/1de6f8d0-769b-11e2-ac91-00144feabdc0.html#axzz2Un9GXagU

United States

In light of the similarities in the origins of the European and U.S. financial crises, an important question is why the U.S. has rebounded when much of Europe did not. One is tempted to answer with respect to two factors: One, the U.S. banks' capital accounts were repaired fairly quickly, and two, the Fed followed consistently restorative monetary policies, whereas the European banks have been allowed to remain undercapitalized and European monetary policy has not been as robustly supportive as QE. Kudos then would go to the Fed for having managed the crisis well.

It appears to me that the differences in bank recapitalization and monetary policy did and do exist. But are they coincident differences or are they causes of the different outcomes? I have not yet come to a firm conclusion because there are competing explanations.

There are at least three other compelling factors at work that I think are more predominant than monetary and regulatory policy: One, the U.S. economy is naturally more resilient than the European economy because of better incentives and more flexibility. Two, the flawed design of the euro has made the common currency an obstacle rather than an aid in recovery across national boundaries. Three, the U.S. has benefitted from an oil and gas boom that has cushioned the natural impact of global competitive forces.

I tend to discount the relative health of the U.S. banks as a positive factor because the U.S. banks have, for most of the post-2008 period, not seen significant loan growth that might have led to economic growth (if indeed bank lending is required for that). The stimulative lending has been done by the U.S. government and the likes of junk bond mutual funds and private equity/hedge funds. The Fed's role in keeping monetary policy accommodative probably has achieved lower interest rates than otherwise might have prevailed (though without inflation and with a weak economy, perhaps interest rates would have been fairly low anyway), but accommodative monetary policy did not induce banks to lend, despite their being awash in liquidity. Therefore I wonder to what extent the Fed should take credit for the recovery (as opposed to the liquidity assistance in late 2008-early 2009 that I believe did avert worse financial carnage).

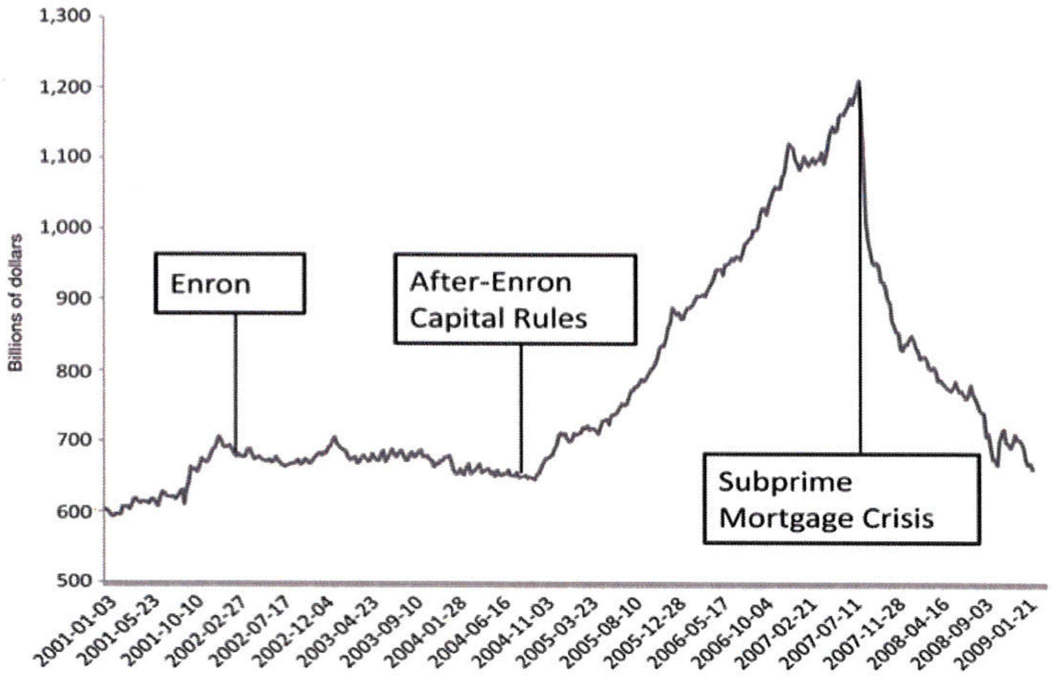
My analysis of the European/American differences post-2008 suggests to me that the advantages of the U.S. economy are deeply embedded and quite significant. Europe cannot match America's competitiveness over the near term, and therefore its recovery, whenever it begins, will be held back by expensive energy, labor market rigidities, and lack of incentives to innovation, as well as an aging educated workforce and growing numbers of both under-educated young people and retired people who are entitled to large amounts of public support. Those are fundamental factors that even a sound financial system cannot counteract. The extreme financial liquidity and consequent overbuilding of 2004-2007 tended to mask those real economy realities. Perhaps that is why so many European commentators appear to want to go back into the credit bubble.

D. Asset Backed Commercial Paper—An Element of the Regulatory Laxity that Built the Boom and Enlarged the TransAtlantic Flow of Credit

The asset-backed commercial paper story deserves to have a good book-length presentation all by itself. In this section I will rely largely on the work of Prof. Acharya of NYU, supplemented by some of my own work. My speculations should not be attributed to Prof. Acharya. Appendix A on FIN 46 expands on some of the regulatory bases for the mistakes that governments made that pumped up the market.

Here is Prof. Acharya's basic graph that shows the rise and fall of the asset-backed commercial paper market:

Figure 1. The Rise and Collapse of Asset-Backed Commercial Paper



Note: This figure shows total asset-backed commercial paper outstanding in the period from January 2001 to February 2009. The figure is based on aggregate data provided (ABCP) by the Federal Reserve Board. The figure indicates the date of the Enron Bankruptcy (November 2001), the announcement of new accounting rules for liquidity enhancement provided to conduits (April 2004), and the start of the subprime crisis (August 2007).

FAS 46 created the boom in ABCP in 2004. It was a rule made in Washington by the Fed and followed in principle in Frankfurt and London. It was a material part of the debacle. Through the mechanism of FAS 46, I guess that over $500 billion of loans—perhaps as much as $1 trillion of loans—were made in the U.S. and elsewhere with little or no capital backing them up. They were made on the strength of bank guarantees but, because of the strange regulatory treatment, the guarantees required little or no regulatory capital. Interestingly, Spain did not adopt the new rule—and it had no ABCP. Canada adopted a different rule, with mixed results. See Appendix A on FAS 46.

As part of their summary, Prof. Acharya and his collaborator, Prof. Schnabl, opined:

> "We conjecture based on descriptive evidence of the regulation of ABCP conduits across countries, that bank risk-taking was driven primarily by 'weak' regulation in the sense that it allowed banks to hold assets in conduits with little capital relative to the required capital for assets on bank balance sheets."
> http://www.palgrave-journals.com/imfer/journal/v58/n1/pdf/imfer20104a.pdf
>
> "We show that large commercial banks in both current account surplus and current account deficit countries manufactured risk-free assets by setting up asset-backed commercial paper (ABCP) conduits. These conduits are a form of securitization in which banks use off-balance-sheet vehicles to purchase long-term

> assets financed with short-term debt. However, contrary to other forms of securitization, such as mortgage-backed securities (MBS) or collateralized debt obligations (CDO), banks effectively retain the credit risk associated with conduit assets. Hence, as long as banks are solvent, conduits are risk-free for outside investors but can generate significant risks for banks. In exchange for bearing these risks, banks have access to low-cost funding via the ABCP market."
>
> "First, before the financial crisis of 2007, ABCP was the largest short-term debt instrument with more than $1.2 trillion outstanding in January 2007. By comparison, the second largest instrument was Treasury bills, with about $940 billion outstanding. Second, we show that the risks associated with ABCP conduits were primarily borne by large commercial banks." http://www.palgrave-journals.com/imfer/journal/v58/n1/pdf/imfer20104a.pdf

> "That this was a regulatory failure can be seen by examining the international data that show that countries such as the United States, the United Kingdom and Germany, which adopted lax capital treatment of ABCP vehicles, had significant presence of their commercial banking sectors in the ABCP market, whereas counterparts in Spain and Portugal, which adopted economically prudent capital treatment of ABCP vehicles, had virtually no presence in this market." http://pages.stern.nyu.edu/~sternfin/vacharya/public_html/pdfs/NBER%20Reporter%20-%20Summary%20of%20Crisis%20Research%20-%20V%20V%20Acharya%20-%203%20Mar%202013.pdf

It appears to me that the Fed permitted conduits without capital to be effectively guaranteed by the banks because increased credit was seen as good for the economy. The banks, of course, advocated that, as they always do, and they seem to have succeeded in regulatory capture on this issue. But the regulatory capture probably would not have been possible without the theoretical underpinning provided by economic theory. [If anyone participated in this process and would be willing to provide some insight, I would appreciate that.]

E. SIVs, Landesbanks and All That

The most egregious examples of conduits that were effectively guaranteed by banks were the SIVs set up by the German Landesbanks. They (and a conduit established by BNP Paribas) were among the first failures of August 2007. The Landesbanks had established the conduits because they had no other good sources of income. With the German credit markets being very competitive, the Landesbanks had no natural advantage that could give them sufficient spreads. The SIV structure that was handed to them full-blown seemed like a riskless arbitrage. (We all know about riskless arbitrages.)

The story is now well-known, but the Landesbank SIVs, like other European bank conduits, pumped up the credit markets of the U.S. the U.K. and, to a lesser extent, a few other countries without hardly anyone knowing.

It would be double counting to add the SIV numbers to the ABCP numbers, since substantially all of the SIV assets were bought with funds derived from ABCP. The SIV side of the story, however, shows how the ABCP story was an important part of the TransAtlantic Banking Glut. I do not like to call the SIVs "shadow banks". They were the banks themselves, thinly disguised. Therefore when the ABCP did not roll over, the banks (and sometimes the sovereigns that stood behind the banks) took the losses and the securities back onto their balance sheets. Make no mistake: The capital markets knew full well that the banks were on the hook. Otherwise almost no one would have bought ABCP.

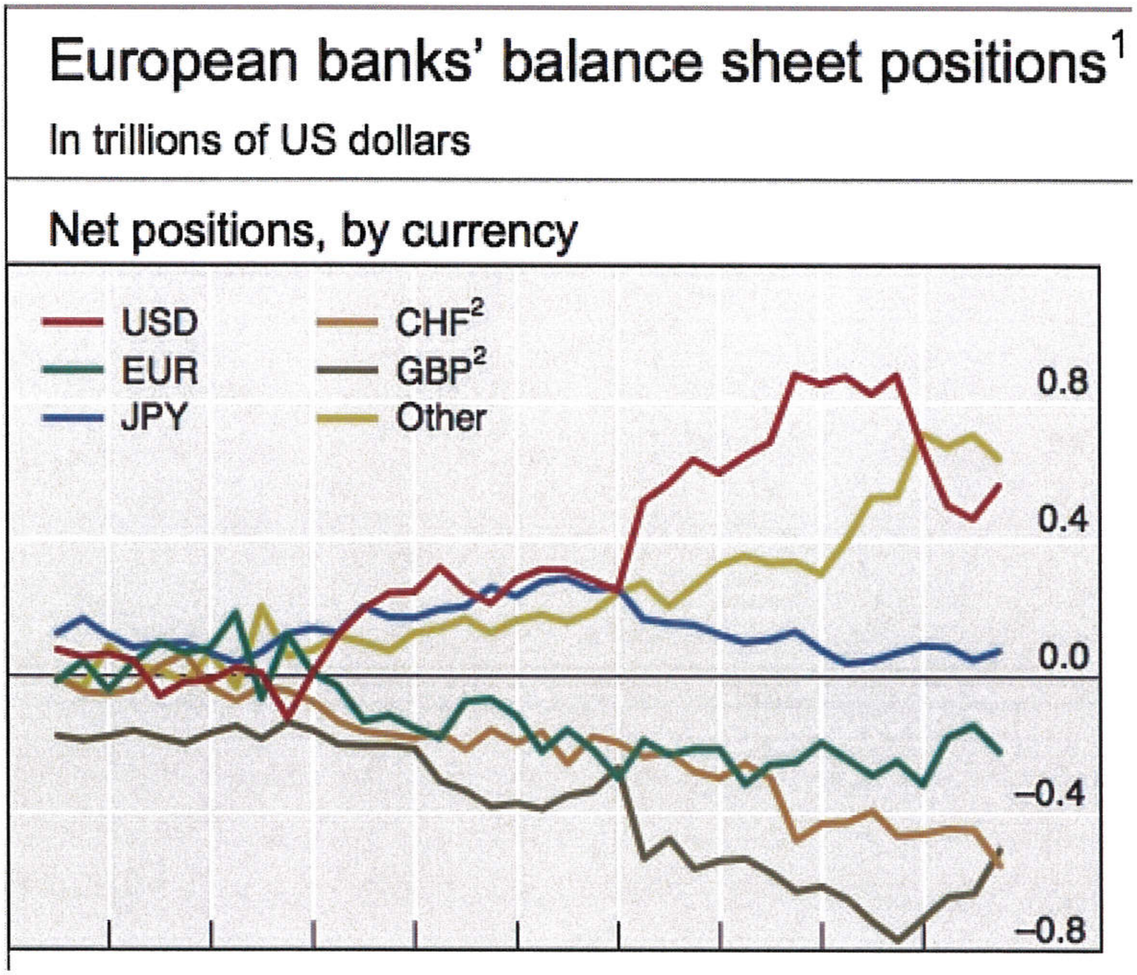
F. European Bank Dollar Liquidity Risks Were Large

The liquidity risks that the major European banks ran were very large. Not only did they borrow in the wholesale markets much shorter than they lent by buying the mortgage-based securities, they also had a significant currency imbalance in that they borrowed in euros, pounds or Swiss francs to buy dollar-denominated securities, hedging the currency differences in the short-term derivatives markets. Therefore when their inability to borrow or hedge in the wholesale markets dried up, they were left basically insolvent from a liquidity point of view and would have failed but for the Fed's swap lines with European central banks and its TALF program under which it financed the European banks' holdings of U.S. securities. The rhetoric of the European banks was that they had just been caught by a very unusual liquidity squeeze that could not have been anticipated. Such was not the case, however.

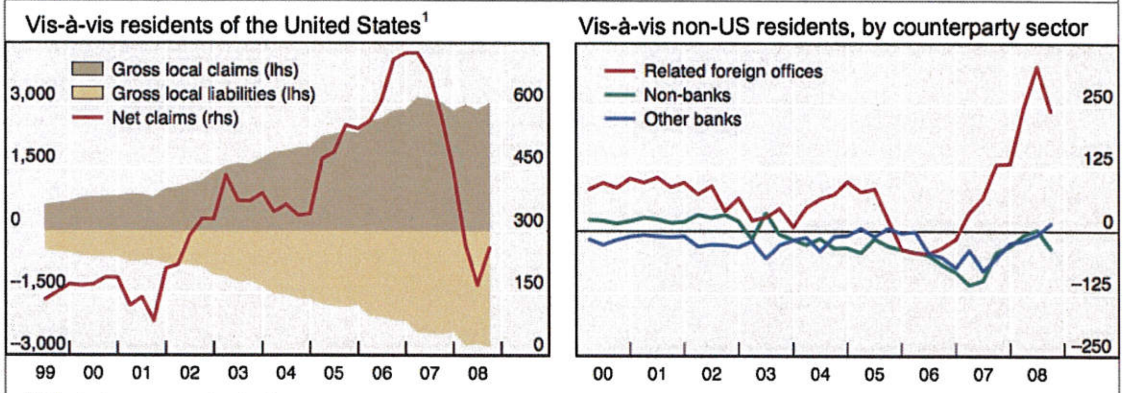
The European banks could not borrow or hedge in the wholesale markets for a very normal reason: They were undercapitalized. In good times, being undercapitalized tends to be overlooked because everyone is dancing. When the music stops, a weak capital position naturally leads to illiquidity, as it always has historically. The large European banks simply were reckless. Here was how a BIS paper explained the problem in 2009, in more neutral language than I have used:

> "Taken together, Graphs 2 and 3 thus show that several European banking systems expanded their long US dollar positions significantly after 2000, and funded them primarily by borrowing in their domestic currency from home country residents. This is consistent with European universal banks using their retail banking arms to fund the expansion of investment banking activities, which have a large dollar component and are concentrated in major financial centres. In aggregate, European banks' combined long US dollar positions grew to more than $800 billion by mid-2007 (Graph 5, top left-hand panel), funded by short positions in pounds sterling, euros and Swiss francs. As banks' cross-currency funding grew, so did their hedging requirements and FX swap transactions, which are subject to funding risk when these contracts have to be rolled over."
> http://www.bis.org/publ/qtrpdf/r_qt0903f.pdf

The following is an excerpt from Graph 5 to which the above quotation refers:



The following graph illustrates the growth and size of European banks' claims on US residents. It also illustrates the net claims position that built up, causing great hardship when the claims declined in value and the corresponding liabilities/hedges had to be unwound.



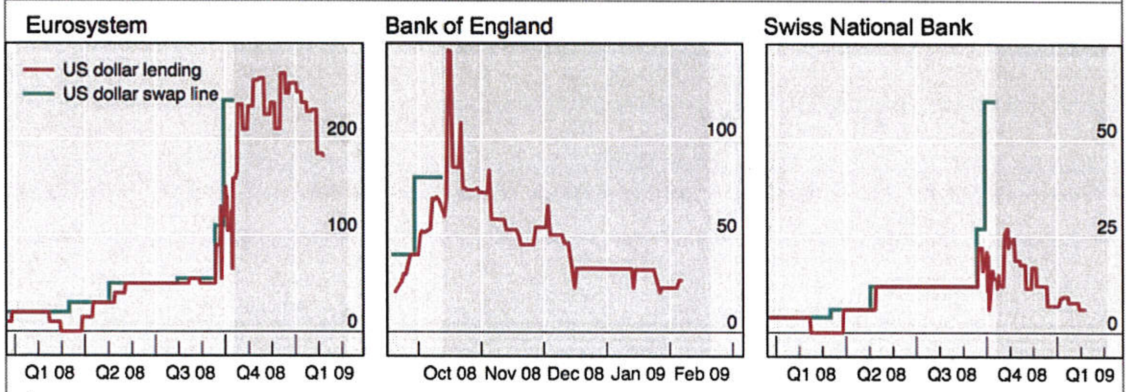
US dollar positions of European banks' US offices

In billions

[1] Vis-à-vis counterparties in all sectors.

Sources: BIS consolidated banking statistics (immediate borrower basis); BIS locational banking statistics by nationality. Graph 6

Only central bank swap lines saved them from complete balance sheet breakdown:



Central banks' US dollar swap lines[1]

In billions

[1] Amounts outstanding are constructed by cumulating auction allotments, taking into account the term to maturity. The shaded area indicates the period of unlimited swap lines (as of 13 October 2008).

Source: Central banks. Graph 7

Some of the measures the Fed was forced to undertake on behalf of the failing European banks are discussed in Appendix B to this paper. They illustrate the extreme risks that the European banks took in order to provide credit to the U.S. markets.

Central bankers tell the story in neutral language, such as I have quoted above. Centralbankspeak tends to prevent the public from seeing that the banks were reckless and, more importantly, from seeing that government policies encouraged them to be reckless. The TransAtlantic Banking Glut was not an accident. It was the natural (though perhaps not intended) outcome of government policies.

II. Evidence from the Asian Crisis of 1997

The various parallels and non-parallels between the Asian and European crises are too complex to cover them all in a short section of a paper on Europe. But the parallel with implicit government guarantees of bank debts is important, I believe, in showing the potential impact of implicit guarantees.

An IMF paper describes the Asian financial crisis this way: "Generally, though, the weaknesses in the crisis countries derived from the interaction of weak domestic financial institutions with large capital inflows. . . . The most affected countries had a high ratio of short-term external debt to GDP." The paper further said:

> An important aspect of the credit boom was a rise in financial fragility. With a large growth in bank lending heavily collateralized by high-priced property, and non-financial corporations in many cases highly leveraged, any slowdown in growth, increase in interest rates, or decline in asset prices would result in large increases in bankruptcy. With banks not well-capitalized, this in turn would put immediate pressure on the solvency of the banking system. The large size of the banking system and corporate debt relative to GDP, in turn, magnifies the economic significance of financial distress.

Regarding Thailand, the IMF paper concludes:

> "The capital inflows were intermediated primarily by commercial banks and finance companies, leading to rapid credit growth—especially in the property sector—and growing concerns about asset quality. At the same time, many domestic companies acquired large unhedged foreign exchange positions, as a result of rapid borrowing in dollars."
>
> http://www.imf.org/external/pubs/ft/wp/1999/wp99138.pdf

It all sounds a lot like what the major European banks did. How did the Thai banks get funding when they were taking such extreme risks? The answer appears to be implicit government guarantees.

Professor Krugman made what seems to me a nuanced analysis of implicit government guarantees in a talk at MIT in 1998. He could almost as well have been talking about Europe in 2004-20007 as about Asia a decade earlier. Here are some excerpts:

> "So what would a true account of the Asian crisis look like? Let me propose the following story: The problem began with financial intermediaries - institutions whose liabilities were perceived as having an implicit government guarantee, but were essentially unregulated and therefore subject to severe moral hazard problems. The excessive risky lending of these institutions created inflation - not of goods but of asset prices. The overpricing of assets was sustained in part by a sort of circular process, in which the proliferation of risky lending drove up the prices

of risky assets, making the financial condition of the intermediaries seem sounder than it was.

"And then the bubble burst. The mechanism of crisis, I suggest, involved that same circular process in reverse: falling asset prices made the insolvency of intermediaries visible, forcing them to cease operations, leading to further asset deflation. This circularity, in turn, can explain both the remarkable severity of the crisis and the apparent vulnerability of the Asian economies to self-fulfilling crisis - which in turn helps us understand the phenomenon of contagion between economies with few visible economic links."

"Is this the full story of the Asian crisis? Surely not, and in the last section of this paper I discuss some other possible aspects. But the moral hazard/asset bubble view seems a strong contender for a leading role, and it is certainly worth laying out how it might work."

"The Asian situation is considerably more murky. In general, creditors of financial institutions did not receive explicit guarantees from the governments. However, press reports do suggest that most of those who provided Thai finance companies, South Korean banks, and so on with funds believed that they would be protected from risk - an impression reinforced by the strong political connections of the owners of most such institutions. In practice, moreover, these beliefs seem to have been for the most part validated by experience (at least at time of writing). For example, depositors in all Thai finance companies were protected; in some cases those who had merely lent them money were not, but these cases were exceptional, so that as a general rule the finance companies did in fact turn out to have guaranteed liabilities. Similarly, while South Korea may have the legal right to declare private bank debts a private issue and let default happen, in practice bank debt was at time of writing well along in the process of being nationalized."

"It may also be worth noting that this is the sort of distortion whose consequences can easily be made worse by globalization. Suppose that this country did not have access to the world capital market - suppose, for example, that it had to rely on a fixed supply of domestic savings, unresponsive to the interest rate. Then the excessive investment demand generated by the intermediaries would not in fact lead to excessive investment - all that it would do is drive up the interest rate. Offering such an economy access to the world capital market might then, in classic "second-best" fashion, actually make the economy worse off by allowing moral hazard in the financial sector to translate into real excess capital accumulation."

"The boom-bust cycle created by financial excess preceded the currency crises because the financial crisis was the real driver of the whole process, with the currency fluctuations more a symptom than a cause."

http://web.mit.edu/krugman/www/disinter.html

Professor Krugman's description of the Asian phenomenon looks to me much like the European/American phenomenon. It begins with financial institutions that are permitted to grow too large and too rapidly based on perceived government guarantees and lax capital regulations. As in Europe, in Asia much of the investment in the banks came from outside. As in the U.S., Ireland and Spain, much of the damage came from credit initiated from outside. These similarities suggest to me that the underlying causes probably were similar.

III. What Caused the TransAtlantic Banking Glut?

In his Mundell Lecture, Prof. Shin asked a provocative question: "Why did European banks expand so much?"

He identified two candidate explanations:

- Regulatory environment: circumvention of Basel I, impending Basel II and EU Capital Adequacy Directive (CAD)
- Advent of Euro opened up cross-border banking market within the eurozone.

Noeth and Sengupta, researchers at the St. Louis Fed, whose work I quoted earlier, asked slightly different questions in their recent paper: "How did European banks invest in arguably "toxic" private-label U.S. securities? Why were only European banks involved (as opposed to banks in other parts of the world)? Finally, why did the banks concentrate their holdings in the United States (and not other advanced countries)?" http://research.stlouisfed.org/publications/review/12/11/Noeth.pdf I think I have answered Noeth and Sengupta's questions in my review of the European banks' actions above. Therefore I will go on to my own set of questions expanding on Prof. Shin's short list.

Bankers, like most people being governed by a mix of fear, sloth and greed, I will take it as a given that bankers in general will try to make as much money as possible with as little effort as possible unless they have something to fear. Therefore my questions are about government policies and other external factors that might restrain natural conduct rather than about internal bank policies. One might wish for better corporate governance, but that was not in vogue, and after more than 40 years of working on corporate governance, I begin to doubt whether it can be made consistently effective.

Here are my main suspects as to how the large European banks were able to expand so much and take such great risks with so little capital backing them up:

1. Implicit government guarantees of bank liabilities.
2. Loose monetary policies.
3. Advent of the euro.
4. Adoption of Basel II and related phenomena.
5. Other lax regulatory and supervisory policies.
6. The invention of mortgage-based AAA securities that earned a few extra basis points, thereby making the arbitrage between them and low-cost short-term liabilities superficially attractive.

I have sent my list to a number of people who might be able to pinpoint a cause. None have been able to do so, though perhaps someone will do in response to this paper.

I am tempted to say that *all* of the listed factors are part of the story, and that probably they all did play a role. But when we say that so many factors in confluence caused something, we are saying very little unless we can assign them all—or most of them—to a category or a common anterior or underlying cause. I think we can do that.

The single underlying cause would be the economic theory under which credit growth plays a crucial role in promoting economic growth. The euro promoted credit growth—and was intended to promote credit growth—by channeling money across borders. Basel II made it easy for banks to (a) underestimate their risks, and (b) arbitrage assets with little or no capital—probably as a result of regulatory capture, but the regulatory capture could not have occurred without central bankers wanting to promote the use of credit. Loose monetary policy clearly occurred, and it occurred precisely in order to promote the flow of credit. Other lax supervisory policies such as FIN 46 must have resulted from regulatory capture, but I have to believe that the capture could not have taken place without the underpinning of the Fed's desire to promote the flow of credit. Implicit guarantees of bank liabilities by European governments was a policy based on the assumed need for abundant cheap credit. The possible pull of the AAA securities was due to the structure of Basel I and Basel II, as well as the Fed's loose monetary policy and American housing policy that promoted lending.

With this analysis, I suggest that the answer to which cause was predominant makes less difference than at first might have appeared. They all come back to governments' attitudes toward credit and the ways that those attitudes are translated into public policy. If that does not change, how could one expect that governments would not repeat their mistakes in one form or another?

Economists are reluctant to challenge the orthodoxy of beneficial credit growth. Even though Prof. Shin has tenure and has clearly seen the problems caused by the banking glut, he is concerned about the future supply of credit. As a cautious academician, he concluded his discussion with a hedge:

> "In this lecture, I have argued that global liquidity is a banking sector phenomenon, and that the financial stability implications of global liquidity are intimately tied to the leveraging/deleveraging cycle of the global banks. Much work remains to be done in exploring the implications for macroprudential policy."

I am not going to hedge because, being on my own, I have super-tenure.

Digression on Bank Behavior

Professors Acharya and Schnabl would have expanded my list of possible causes to add the changing nature of the banking business, increased competition among banks that caused margin compression, and erosion of bank franchise values that led to increased appetite for risk. Here is how they phrased the questions in their article on ABCP:

> "Hence, we avoid reiterating the question asked elsewhere—what has caused the global imbalances and how to fix them? Instead, we ask—what incentives did large, global banks have to concentrate risks while deploying securitization methods such as ABCP conduits to absorb the capital inflows? In this section, we discuss a few possibilities including the changing nature of banking business, erosion of margins in traditional lending activity because of competition and securitization, risk-taking incentives induced by such erosion of bank franchise values, weak enforcement of capital requirements, bank size and government

> guarantees, and finally, globalization of banking. More empirical work is needed in order to tease between these different possible explanations."

In my view, the causes linked to changing market competition that were advanced by Profs Acharya and Schnabl, while most likely true in that they occurred, are most likely not necessary conditions in that banks are prone to grow to whatever size regulatory bounds will permit so long as they perceive opportunities to earn a spread on the newly assumed liabilities. Although that is a cynical view of bank managements, I believe that over the last 25 years at least, it has been an accurate view. I say that because very few banks of significant size have chosen to carry excess capital as measured under Basel I since its advent in 1988. It may be that in the cozy, non-competitive banking world of the 1960s or early 1970s things were different. But at least since 1982, greed has been in vogue, and subsidized banks have sought to squeeze every possible advantage out of the subsidies.

A. Survey of each of the Enabling Factors Listed above that Made the Banking Glut Possible

Advent of the Euro

Prof Shin has written that the advent of the euro was an important cause of the banking glut that he described: "An important part of the explanation must surely be the advent of the euro in 1999." "The introduction of the euro meant that 'money' (i.e. bank liabilities) was free-flowing across borders, but the asset side remained stubbornly local and immobile."

I agree. In fact, the euro was designed to make money flow across borders from countries that had excess funding to countries that needed funding. However, one should be careful not to overemphasize the role of the common currency because the data that I showed above suggest that banks from countries that were not in the euro (e.g., Switzerland and the U.K.) expanded internationally just about as much as banks from countries that were in the euro (e.g., Germany and France). It appears that it was some of the recipient countries' credit markets (e.g., Ireland, Greece, Spain and Italy) that most likely became bloated in significant measure due to the euro. Without the euro, it seems unlikely that they would have qualified for the extreme levels of interbank funding that took place. I would guess that without the euro, the Irish, Spanish, and Greek housing booms do not take place and that the Italians would have had a different sovereign debt crisis earlier than 2010. Greece also probably would have had a sovereign debt crisis as well, except that it would have defaulted more promptly, as it did so many times in the past. The Cypriot banks probably would not have attracted so much Russian money because what rich Russian would want drachma?

Implicit Government Guarantees

I have searched for the origin of European sovereigns' implicit guarantees of their major banks, and I have found no compelling entry point to the inquiry. At this stage, I can say only that I will continue to search and would welcome thoughts or theories. I am convinced, however, that implicit governmental guarantees were an important part of both the availability of dollar funding at reasonable rates for the major German, Swiss, French, Dutch and U.K. banks and the willingness of the banks from those countries to lend to the banks from the negative current account countries. [I need to look at the S&P, Moody's and Fitch bank ratings of the time to see whether they were explicit about the role of implicit government guarantees in their favorable ratings.]

In a few cases, the government guarantee was explicit, as Acharya and Schnabl explained:

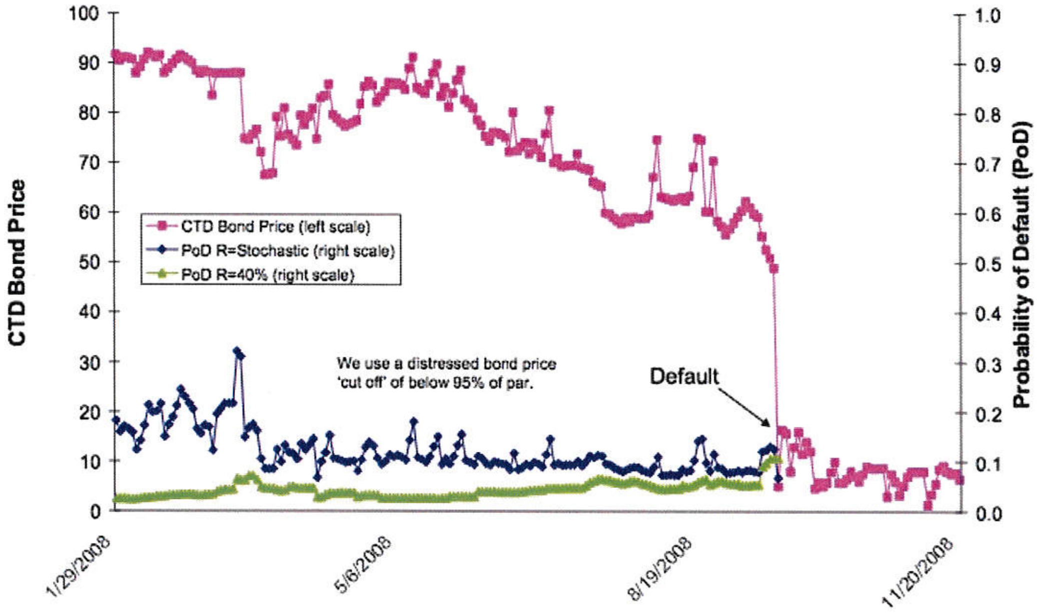
> "Ormond Quay benefitted from an explicit government guarantee: As a result of the bank guarantee, Moody's awarded the conduit the highest possible short-term rating "P-1." Moody's also explicitly mentions in its report that the guarantees provided by Sachsen Landesbank are required for the 'P-1' rating and notes that these guarantees are considered sufficient because Sachsen Landesbank itself benefits from a grandfathered state guarantee." http://www.palgrave-journals.com/imfer/journal/v58/n1/pdf/imfer20104a.pdf

As Prof. Krugman described regarding the implicit guarantees in Asian nations and their role in creating the foundation for the Asian crisis of 1997, the government guarantee need not be explicit. Markets almost always understand whether or not there is a guarantee. (Other scholars have demonstrated that proposition in greater detail.) The ABCP saga and the related conduit bailouts by banks show that the markets understood far better than the regulators who or what really took the credit risks. The Chinese Government that bought Fannie and Freddie's bonds knew very well that their liabilities were guaranteed by the U.S. Government; only the U.S. Congress pretended they weren't.

Some in the press point to Lehman Brothers as an example of where the market was wrong in that, based on Bear Stearns, the market expected a government bailout and it got none. But please look at the prices of Lehman bonds in the months leading up to the failure, as sown by the following graph. The bond prices—falling gradually to 50% of face despite a single-A rating (!)—suggest that by July the market expected a greater percentage recovery than occurred, not that the market thought a government guarantee was in place and therefore that a failure would not occur. When a bond reaches below 80% of face value, the market is pricing in a substantial default possibility. By 60%, the market is predicting a probability of default with a fairly low recovery rate. Therefore I think the market understood quite well what was going on. The price stayed over 50% only, I think, because many bondholders did not want realize the loss. Had they sold, they would have driven the price still lower.

I think it is noteworthy that Reserve Prime Fund bought Lehman's paper before the bond price had declined significantly and before Lehman had unsuccessfully tried to market itself. After the bond price began to decline, a money market fund is not in a position to sell a significant depreciated asset, although with the benefit of hindsight Reserve would have been far better off doing so at any time before September, and if they had done so, the aftermath of Lehman would have been far different.

Figure 3. Lehman Brothers



Sources: Bloomberg. L.P., Markit

The foregoing graph of Lehman Brothers bond pricing comes from a paper by Manmohan Singh at the IMF, one of the great economists in this field. http://www.imf.org/external/pubs/ft/wp/2009/wp0962.pdf

I believe that a study of how Lehman's counterparties protected themselves in the March-August period would show that they, too, were protecting themselves against a failure—in their case by making certain that they had secured positions. It seems likely that their ability to protect themselves through secured positions is the reason that unsecured creditors were stuck with such a low percentage recovery, which would not have been true had the bankruptcy come six months earlier.

I contend that the whole financial world *knew* that Germany would not let Deutsche—or even Commerzbank or the Landesbanks—fail, that Switzerland would not let UBS or Credit Suisse fail, that France would stand behind BNP Paribas, SG and Credit Agricole, that the U.K. would stand behind Lloyd's, Barclay's and RBS, that the Netherlands would stand behind ING and Rabobank etc. And the financial world was correct. In the climate prevailing in the naughties, those institutions would never have been permitted to fail. Indeed, the *FT* estimated that 1.6 trillion euros of capital was injected into European banks by their sovereigns in the aftermath of the financial crisis. [link is stale] I believe the implicit guarantees contributed significantly to the banking/money glut, and therefore contributed significantly to the boom in housing prices on both sides of the Atlantic that made the bust inevitable.

Lax Regulatory Policies

Lax regulatory policies result primarily from three factors: regulatory capture, promotion of cheap and abundant credit, and the failure of regulators to understand that the subsidies given to large banks make them not subject to normal market forces that otherwise might constrain their growth.

Acharya and Schnabl point to lax regulatory policies as material to the transatlantic nature of the crisis:

> "In contrast, we contend that it was lax financial sector regulation in a world with global banking that contributed to the fully global nature of the crisis right from its inception. In particular, we argue below that weakly regulated financial sectors—of both capital surplus and deficit countries— expanded rapidly by taking in capital flows into the United States and creating assets there. Hence, when the U.S. assets experienced deterioration in 2007, the geography of the crisis was determined by global banking flows. That is, it was determined on the basis of which financial sectors were weakly regulated—and thus allowed to build significant leverage exposure to the U.S. assets—rather than by the global capital flows, as predicated by the global imbalances view of the crisis."

http://www.palgrave-journals.com/imfer/journal/v58/n1/pdf/imfer20104a.pdf

Noeth and Sengupta compared the U.S. and European regimes:

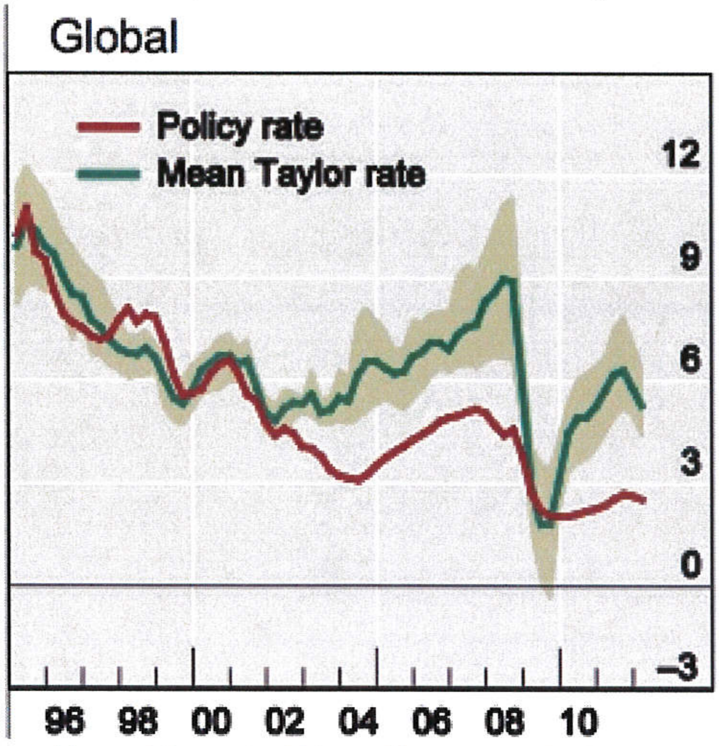
> "Shin (2012) argues that while regulators in both the United States and Europe may have allowed banks to increase leverage, the incentives were stronger in Europe because of 'the permissive bank risk management practices epitomized in the Basel II proposals.' European regulators' whole-hearted adoption of the Basel II proposals under the European Union's (EU) Capital Adequacy Directive permitted these banks to expand their balance sheets rapidly. As Avramova and Le Lesle (2012) note, 'European banks tend to gravitate towards assets that carry a low risk weight, allowing them to report strong capital ratios under the Basel II risk- weighted framework. Conversely, in the United States, where the emphasis beyond Basel I has long been on the leverage ratio, banks tend to focus more on assets that carry attractive returns, since they have a more binding leverage constraint and cannot over-accumulate assets' (pp. 14-15)."
> http://research.stlouisfed.org/publications/review/12/11/Noeth.pdf

Lax regulatory policies prevailed on both sides of the Atlantic in the 1999 to 2008 period. Fed Chairman Greenspan never understood that subsidies made the banks not subject to normal market forces, and thus he never understood that his normal pro-market bias was inapposite to bank regulation. The SEC had no idea what it was doing when it assumed supervision of the major investment banks in 2004. And the banking industry had taken over the Basel II process so that only the FDIC stood in the way of banks regulating themselves.

In Europe matters appear to have been even worse. Regarded as quasi-utilities, major banks were assumed not to be able to fail. Their function was to lend as much as possible to pump up the local economy and, through international banking, to bring fame and fortune to local people and support other businesses. Everyone seems to have thought it was easy to make money as a banker: Just borrow cheap and lend a little dearer. In an era of high global liquidity, maturity transformation is good, and one needn't worry that liquidity will dry up. It truly was going to be different this time, they must have thought.

Loose Monetary Policy

The Greenspan Fed maintained a loose monetary policy from 2002 through 2005. Even when they began to raise interest rates in **XXXX**, they raised them a quarter of a point at a time and told the market that they would do so, thereby supporting any carry trade that any substantial market player wanted to devise. Even given the style of managing the economy through interest rate movements, the Greenspan policy seems unusual, as displayed by the graph of the disparity between global policy rates and the Taylor Rule rate that had been one of the Fed's guidelines for some time:



http://www.bis.org/publ/qtrpdf/r_qt1209f.pdf (There are many versions of this graph, some U.S.-only, some global)

Some say that "Americans overbuilt houses in response to interest rates and housing prices being distorted by the Fed's overly expansionary monetary policy." http://mercatus.org/sites/default/files/Horwitz_MonetaryPolicy_v1.pdf I do not quite buy the loose monetary policy explanation standing on its own. Low interest rates do make it easier for people to buy houses in some respects, but they also cause house prices to go up. And the credit still has to come from somewhere. In this case, as we have seen, a great deal of the credit came from European banks on the strength of their governments' implicit guarantees.

There are many schools of economics that would disagree with my limited view of the impact of monetary policy. For example:

> "Finally, an excess money supply can trigger the boom and bust of the business cycle. I previously discussed the Austrian business cycle theorists of the interwar years. They, along with their modern descendants, argue that inflationary

> monetary equilibria can drive market rates of interest down below the natural level compatible with sustainable growth. In doing so, they encourage people to invest in longer-term processes of production. The lower interest rate makes it look as if there is more saving taking place and as if consumers are more willing to wait to purchase the goods they want. When more saving is taking place, interest rates fall and producers respond to that interest rate signal by taking more time to create things. Those longer-term processes are more productive, meaning that with more time, more goods can be produced. Hence, an increase in real saving leads to economic growth."
>
> "The cause of the business cycle is the monetary disequilibrium having driven interest rates artificially low and created the incentive to invest in the unsustainable long-term projects that constitute the boom. The waste represented by the mistakes induced by the boom is a significant problem created by poor monetary policy.
>
> http://mercatus.org/sites/default/files/Horwitz_MonetaryPolicy_v1.pdf

I do not propose to resolve these long-standing debates. I merely point out that the Fed's *purpose* in keeping interest rates low was to increase the flow of credit in America. That its policies did so should not come as a surprise.

Availability of Interbank Lending and AAA Securities

One of the conditions that can limit a bank's appetite for additional liabilities is the unavailability of assets on which the bank can earn a spread vis-à-vis the cost of the liabilities. In many cases, banks do not have the capacity to make individual loans that satisfy their usual criteria. In the 2004-2007 period, however, the large European banks did not feel constrained by this limitation because two types of assets were readily available that required little effort to acquire. Within Europe, banks in Ireland, Italy, Greece and Spain were hungry for funding in euros that they could deploy at a profitable spread in their local markets. Because loans to other euro area banks required little regulatory capital, they appeared to be an easy way to make money. With dollar assets, the European banks found that they could invest in mortgage-related securities produced by the U.S. capital markets, seemingly in endless supply. As long as the European banks would purchase the securities, it seemed like the American investment banks could produce them (and with synthetic CDOs, there was in fact no limit). And with large parts of the securities being rated AAA, the European banks needed little regulatory capital and, therefore, thin spreads were acceptable. Again, this seemed like an easy way to make money on large amounts of wholesale liabilities.

Of course, like most apparently easy ways to make money, the assets turned out not be worth what they appeared to be worth, and the large European banks should have failed as a consequence. In Europe, however, the governments bailed out the debtor banks, thus protecting the creditor banks from some of their losses. In the U.S., the government did not back up the supposedly AAA securities, and therefore the large European banks suffered great losses, and some of them would have failed but for governmental capital injections. (The U.S. government did bail out the European banks from a liquidity point of view through the swap lines advanced by the Fed through European central banks.)

The push and pull between funding that might be sought and assets that offer an attractive spread are hard to separate. I think it is sufficient to say that the existence of one tends to encourage the existence of the other when capital, either regulatory or market-based, is not a constraining factor. That capital was not a constraining factor seems likely to have been due to lax regulatory standards and the market's (correct) judgment that sovereigns would stand behind their banks, both of which, in my opinion, derive from governments' desires to promote abundant credit. But in banking, liabilities are harder to acquire than assets, so in all likelihood, it was more of a demand push for the assets than a matter of U.S. investment banks marketing desirable assets followed by European banks putting on liabilities to fund the assets.

B. Microprudential versus Macroprudential Supervision as an Answer

Prof. Acharya attributes a large part of the regulatory failures to the fact that regulators focused on the safety and soundness of individual institutions rather than the safety of the system as a whole:

> "Why did these regulatory failures arise? While potential explanations abound, a leading candidate is that regulation was focused on ensuring the safety and soundness of individual financial institutions with rules and tools that were in many cases inappropriate for assessing the buildup of aggregate risk of assets and rollover risk due to short-term debt of the financial sector."
> http://pages.stern.nyu.edu/~sternfin/vacharya/public_html/pdfs/NBER%20Reporter%20-%20Summary%20of%20Crisis%20Research%20-%20V%20V%20Acharya%20-%203%20Mar%202013.pdf

As you already know, I attribute the regulatory failures to a larger cause. But Prof. Acharya's theory is widely held in both academic and official circles. (As readers have seen from my use of Prof. Acharya's work, I have great respect for it. I use his description here only because it is informative and precise.)

I have been having an interesting conversation on the subject of macroprudential regulation with Claudio Borio, the Head of the Policy Analysis and Research Section of the BIS, another economist for whom I have great respect. Dr. Borio has been an engaging conversationalist despite the fact that the conversation has taken place entirely within my own head.

In a paper titled "Towards a Macroprudential Framework for Financial Supervision and Regulation?" Dr. Borio advocated a macroprudential approach to regulation and supervision in order to prevent systemic events that would have a significantly adverse impact on the real economy. Here is what I think is a key set of observations made by him:

> "First, it is not possible to understand the crises unless we understand how vulnerabilities *build up over time*. This requires an understanding of the mutually reinforcing *dynamic* interaction between the financial and the real economy, and not just in the unfolding of financial stress but, importantly, as risk builds up. What we need is a proper theory of business fluctuations that merges financial and real factors. The triggering shock is, in fact, the least interesting aspect of the story. The boom sows the seeds of the subsequent bust. To an important extent, risk is *endogenous*. Second, it is not so much contagion from individual failures but

> common exposures to the same risk factors that explain the crisis. Third, much of the action is on the *asset side* of the balance sheets as opposed to the liability side. The liability side can play a role primarily in the precise unfolding of the crisis, as it can affect the abruptness and virulence with which asset side adjustments are enforced. . . . But it is the deterioration in asset quality that fundamentally drives the process. This is all the more so given the willingness to socialize losses in our time."

Well, I was impressed with his explanation. But I asked Dr. Borio why he had not discussed the crucial factor that the assets of inflated value had been financed with debt, indeed with highly leveraged debt. He demurred, saying, in effect, that any idiot knew that—it was instinct in the proposition because without the credit there would be no adverse impact on the financial system. I admitted he was correct.

I was really anxious to continue our conversation, so I greedily devoured the rest of the paper. Dr. Borio talked about a lot of good stuff: Leaning against the wind, reducing the amplitude of the business cycle, building cushions in good times, and other such macroprudential desirables. Then he discussed how a central bank might measure when things might be getting out of hand in a way that would trigger the appropriate macroprudential regulatory and supervisory response. He did very well, in my estimation: He advocated a few simple measures, two involving credit levels and one involving asset prices. Right on, bro! Then he talked about macro stress tests. He said they "could play a role." Well of course I like stress tests. He concluded by saying that "The resulting information could then help to calibrate a prudential response or adjust micro-based measures."

Not to put too fine a point on it: Oy vey, Doc, only a central banker with a very short memory could assume that such information would lead central bankers to change their policies at just the right time. But I asked him anyway, just for completeness' sake, what policy changes he had in mind. "Well, of course," he responded, reminding me again what a simpleton I am, "that would depend on the circumstances." I thanked him very much for his time and we agreed to meet again in 20 years to review our discussion.

Reflecting on this conversation, I have come to the conclusion that the world of central bankers is subject to a mass delusion concerning their capabilities. I do not mean to suggest that they are stupid; of course they are not. But they are not capable of designing a system in which they do the following four things successfully: (1) identify when asset prices and credit levels have got too high, (2) do that at the right time, neither when it is too late or when it is unnecessary (3) implement policies that are properly designed to dampen the market's enthusiasm without causing a panic, and (4) have the markets actually react in ways that the policy was designed to induce.

I do not care what models or computers they use or how much data they can capture and grind. The fact is that the markets and the technologies the markets employ change too fast, the institutional inertia is too great, and the political realities are such that no system of that nature can succeed. It may look good on paper, but it will fail, and because of its existence and the fact that central bankers and others in government will trust it, it actually will make matters worse when market participants assume the sky is perpetually blue and sailing will be serene because everything is under control.

One of the fundamental points that Dr. Borio made was that microprudential regulation could not accomplish the macro needs because protecting individual institutions from failure would not necessarily protect the system as a whole when too many participants became dependent on the same type of assets. I think he is wrong because stress testing by the central bank can take account of the tendency of many institutions (that I have witnessed first hand) to buy or finance the same hot assets. By definition, adopting an extreme scenario includes all institutions being impacted by the change in value of a key asset. And if it is a key asset, then the central bank will have all the more reason to insist that it be properly valued in the adverse scenario. And if not only banks but also all significant creditors are included in the stress test regime, then the multiplicity of possible lenders can be taken care of.

One crucial point to observe, regardless of what macroprudential system one adopts, is that the run-up to the 2007-2009 financial crisis took just four years and it proceeded so rapidly that a central banker logically might have identified the problem only for the last two years: 2005-2006. It is, however, the last couple of years of asset appreciation that turn ordinary losses into disaster for lenders. Any system of macroprudential supervision has to deal with that kind of rapidity.

If I am right that macroprudential supervision is a dead end—and my 47 years of designing, implementing, circumventing and observing regulation and supervision tells me I am right—then what is to be done?

As a first step, Let's go to the videotape as they used to say in sports television: How did central bankers intend to deal with asset bubbles before the Great Recession? One answer may be found in a "seminal" paper by Ben Bernanke and Mark Gertler published in 1999, before Bernanke was a central banker: "Monetary Policy and Asset Price Volatility". http://www.nyu.edu/econ/user/gertlerm/kansasfed.pdf Here is their basic proposition:

> "In this paper we address the question of how central bankers ought to respond to asset price volatility, in the context of an overall strategy for monetary policy. To be clear, we agree that monetary policy is not by itself a sufficient tool to contain the potentially damaging effects of booms and busts in asset prices. Well-designed and transparent legal and accounting systems, a sound regulatory structure that helps to limit the risk exposure of banks and corporations, and prudent fiscal policies that help instill public confidence in economic fundamentals, are all vital components of an overall strategy to insulate the economy from financial disturbances. *However, our reading of history is that asset price crashes have done sustained damage to the economy only in cases when monetary policy remained unresponsive or actively reinforced deflationary pressures*. [Emphasis added.] This observation is our justification for focusing on monetary policy here."
>
> "The inflation-targeting approach dictates that central banks should adjust monetary policy actively and preemptively to offset incipient inflationary or deflationary pressures. Importantly, for present purposes, it also implies that policy should *not* respond to changes in asset prices, except insofar as they signal changes in expected inflation. Trying to stabilize asset prices *per se* is problematic for a variety of reasons, not the least of which is that it is nearly impossible to know for sure whether a given change in asset values results from fundamental factors, nonfundamental factors, or both."

After learned and elegant formal proofs, the authors came back to their conclusions:

> "In particular, in our model, a large positive bubble exposes the economy to the risk of a sharp market correction, with adverse effects on aggregate demand and economic activity. In the absence of an appropriate policy response, the resulting economic contraction could be quite large. A severe market drop in our model also weakens balance sheets, induces financial distress, leads to further declines in asset prices, and widens spreads in bond markets. Although our framework omits some of the microeconomic details of episodes of stress (for example, nonprice credit rationing, reduced liquidity of financial markets), and, hence, is silent about certain types of lender-of-last- resort interventions that the central bank might undertake, we believe that these omissions are unlikely to affect our central conclusions about aggregate stabilization policy.[36]
>
> "The principal conclusion of this paper has been stated several times. In brief, it is that flexible inflation-targeting provides an effective, unified framework for achieving both general macroeconomic stability and financial stability. *Given a strong commitment to stabilizing expected inflation, it is neither necessary nor desirable for monetary policy to respond to changes in asset prices, except to the extent that they help to forecast inflationary or deflationary pressures.* [Emphasis added.]"

One of the authors of course soon had the opportunity to put the theory into practice. Numerous articles have been written evaluating how that worked out. I have not read all of them by any means, but one paper by a prominent academic author that I have read comes respectfully to the conclusion that the theory did not hold up. The author wonders at the end of the analysis whether monetary policy actually can be useful in keeping asset bubbles under control. He wonders whether it might not be better to have some other means of dealing with the issue. (See (Harvard Professor) Benjamin Friedman, "Struggling to Escape from 'Assumption 14'" in *New Perspectives on Asset Bubbles*, Evanoff, Kaufman and Mallaris Eds. (Oxford Press 2012).) Happily, there is another way of dealing with the issue: Through universal stress tests, as I will describe in Part VI.

Contrary to Bernanke and Gertler's optimistic view of how to deal with bubbles after they have popped, I submit that once a credit-fuelled boom is in full flower, fertilized by easy credit and high leverage, nothing can stop the succeeding bust. Extraordinary measures may cushion the bust somewhat. But nothing can stop it from doing great damage.

There is an additional point about the Bernanke-Gertler formulation that I must comment on: Nowhere does it discuss the role of credit in building up the asset prices. That is astonishing to me because (1) monetary policy operates through promoting or discouraging credit, and (2) asset bubbles are not systemically dangerous unless they are credit-induced. It is obvious that assets bought with equity are not a danger to the banking system. Only credit and the leverage that credit brings with it create the enormous losses and the systemic threats. Bernanke seems now to understand that distinction, as demonstrated by a speech he gave in 2012. See http://www.federalreserve.gov/newsevents/speech/bernanke20130510a.htm

Attentive readers will have noted that I have not addressed the interconnectedness problem in my discussion of macroprudential supervision. That is because I believe that interconnectedness is very hard to evaluate at any moment; but more importantly, that interconnectedness only matters when a significant number of financial institutions have suffered losses that make them appear to the marketplace to be in danger of failing. If policy insures that such a condition does not take place, then interconnectedness becomes less important, and it can become merely a part of the normal stress tests process. Financial institutions do not, I believe, have to be risky in order to be useful.

IV. The Origin of the Problem

The basic problem that continues to cause booms and busts is the idea that economic growth should be spurred by credit growth.[4] That theory and the popular politics that it supports lead to policies of loose money, low loan loss provisioning, asset price booms, and credit-contracting asset price busts that inevitably follow the booms. In short, monetary policy conducted with a view to creating credit growth exaggerates the natural swings of the credit cycle. In 21st century Europe the theory and its politics have led to bloated banks and dependence of large parts of the economy on easy credit from compliant lenders. In addition, it has led to lauding the dangerous practice of maturity transformation. Bankers of course support the "credit growth is good" proposition because it gives them social utility and helps them to fend off regulation by claiming that it will curtail lending.

As a secondary issue, conducting monetary policy through banks has become problematic as money flows more freely in an electronic world where credits are created and eliminated in the flash of an eye. Banks are such a small part of the overall financial story (U.S. banks account for less than 20% of U.S. credit) that central bankers have to offer them more and more subsidy to try to get them to make large enough adjustments in credit creation to swing the economy the way the central banks desire. In the U.S., at least, this has led to non-banks (such as hedge funds) using the information generated by the central bank to engage in conduct that, while quite legal, skims the benefits off the top.

I am not contending that there are no conditions under which abundant cheap credit is a good idea. It does appear that in extreme circumstances, such those that prevailed in the aftermath of the Great Recession, low rates have been advisable. However, the general propositions that credit growth brings economic growth and that monetary policy should strive toward that end seem to me not to be justified based on history.

If credit growth is related to economic growth, then over the last 50 years a dollar of growth has been bought with an increasing amount of credit. See the following graph from the St. Louis Fed.

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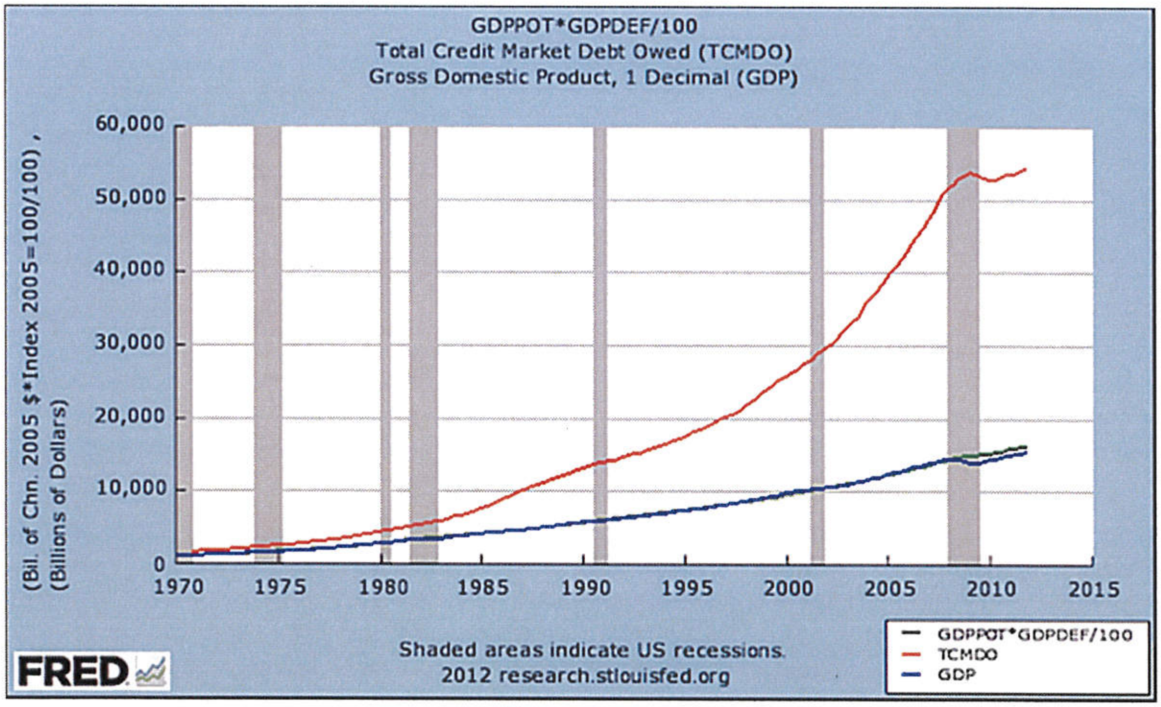
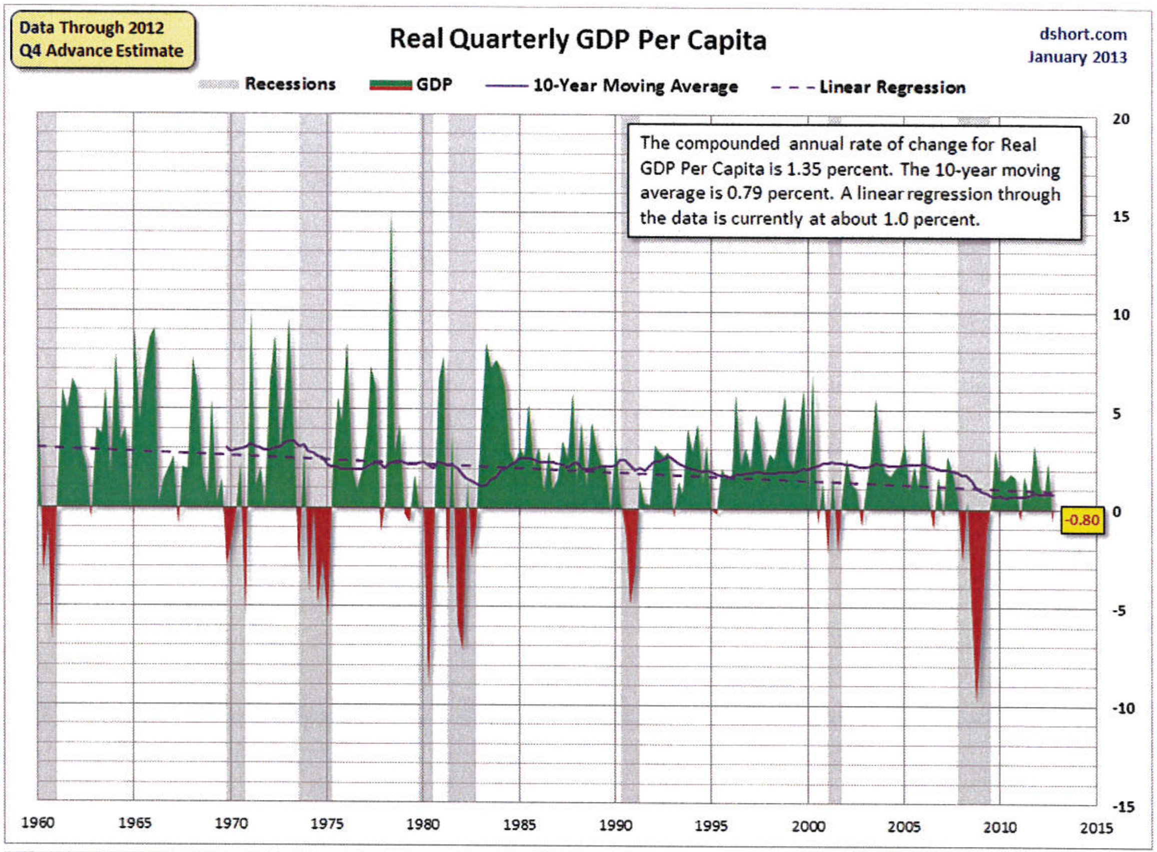
[4] I recognize that the Fed's mandate regarding employment tends to put it in a position where it might seem necessary to induce the banking system to take risks in order to spur employment. But I do not think that Congress intended the Fed to roll the economic dice in favor of full employment.



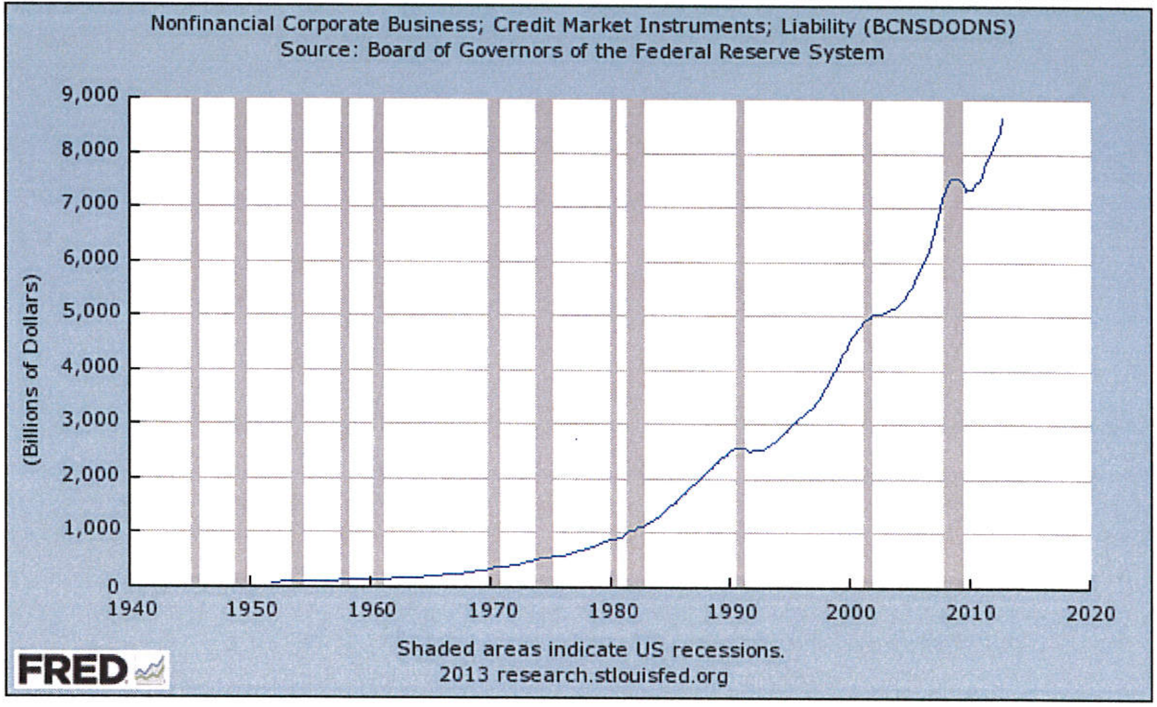
Another way to look at the same issue would be to compare the following two graphs. Real quarterly GDP per capita, as represented by the dotted trend line in the first graph, has been growing at a declining rate since 1960. By contrast, as shown by the second graph, non-financial corporation credit has been growing at an increasing rate since 1970. Again, the country is getting less bang for each credit buck as time goes on.


Real Quarterly GDP Per Capita

Data Through 2012 Q4 Advance Estimate

dshort.com January 2013

The compounded annual rate of change for Real GDP Per Capita is 1.35 percent. The 10-year moving average is 0.79 percent. A linear regression through the data is currently at about 1.0 percent.


Nonfinancial Corporate Business; Credit Market Instruments; Liability (BCNSDODNS)
Source: Board of Governors of the Federal Reserve System

Shaded areas indicate US recessions.
2013 research.stlouisfed.org

I therefore ask: Does credit growth bring economic growth? Or, if it does, is there something about the U.S. financial system is making it less efficient; that is, the more we encourage credit, the less good the credit seems to do.

I have a guess as to a part of what has been happening: The more the Fed and the government as a whole encourage credit, the more the financial sector skims from the subsidies. The profits to the financial sector therefore go up without benefitting the real economy very much. I am not criticizing the financial world's financial managers for doing this. Their job is to make profits. But the rest of the nation's citizens are not getting much benefit from all the subsidies. That suggests to me that the underlying theory is wrong or that it is being applied badly. I do not favor the "being applied badly" alternative because the people in the government applying the theory have not been bad people or stupid people. But they are people, and people in high places necessarily are subject to political pressures and the prodding of market participants. As such, if the prevailing theory requires the exercise of judgments that may go against the grain, the people responsible for taking stringent action often will not be able to make those difficult judgments that are required.

I also am not contending that investment is not necessary for economic growth. I believe it is a very significant factor. But investment and credit are two different things. Retained corporate earnings can be invested. An individual's earnings can be invested in a house or in equity securities. Credit is not the only way to invest; it is only the most dangerous for the economy because it creates leverage.

The U.S. stock market has a current market cap of about $20 trillion, as opposed to C&I loans at U.S. banks of $1.5 trillion. (Even that $1.5T may include leveraged buyout loans and loans used to buy back stock, neither of which fits the category of favoring growth.) See http://www.federalreserve.gov/releases/h8/current/. In addition, the most crucial investments—venture capital-type investments that provide capital to new companies and R&D investments by large companies—almost never come in the form of credit. They are equity or equity-like investments because equity, not debt, suits their risk profile.

A second—subsidiary—question about prevailing monetary policies is their focus on banks as the transmission mechanism. As Bill Longbrake explained in his June 2013 monthly letter:

> "Monetary policy affects the cost of money and determines the extent of financial liquidity. It does not directly cause economic agents to engage in behaviors in ways that will change real economic activity; that is, it does not directly result in decisions to make capital investments or to increase purchases of goods and services. The transmission mechanism is indirect. Monetary policy is only effective if the lower cost of money and its greater availability induces economic agents to change behaviors in ways that boost real economic activity."
> http://www.bsnlawfirm.com/newsletter/OP0613_Longbrake.pdf

I think Bill is right. Conducting monetary policy through banks is hit-or-miss. In addition, with the progress that has been made in other types of credit provision, banks are—at least in the U.S.—not sufficiently important to warrant the subsidies they have been getting.

For example, maturity transformation as practiced by banks is less and less useful because intermediaries that do not act as principals can match investors and borrowers who desire the same maturities. That was amply demonstrated in Apple Computer's successful offering of $17 billion of debt instruments of varying maturities. The market took care of the matching. Matching also can be done by mutual funds that advertise varying maturities and re-pricing criteria, as well as by electronic means. All those methods are far less dangerous than maturity transformation by banks.

It used to be assumed that commercial bankers had an advantage over other credit market participants in that they could evaluate credit better. I do not think that advantage exists today. Perhaps in the day when a business's checking account revealed its financial position, the checking account depository had an advantage in evaluating the business's credit. But that day is long gone. Commercial banks' credit judgments seem no better than anyone else's.

That banks are a useful part of the payments system I think remains true. But we could use narrow banks for that. And I wonder for how long the payments system will need banks. Why not, for example, give everyone a transaction account at the Fed or the Treasury, let companies compete to provide front ends for the government account. There need be no limit on the number of authorized front ends that could compete in providing transaction services. They just would not have possession of money at any point in the process. This construct would be much like the system that our friends at Simple use, except that they have to use a bank. They equally well could use customer accounts at the Fed or the Treasury. [Privacy? Monopoly pricing? I think not problems.]

Thus I question whether monetary policy should be conducted either in the interests of credit growth or basically through the banking system. Both those aspects of monetary policy seem suspect and potentially wasteful. At this time, there may be no other good paradigm for conducting monetary policy. But faute de mieux is not a good reason to employ a crucial aspect of economic policy unless the limitations of the policy are admitted and the risks are guarded against while anew construct is sought.

To break free from the current paradigm, the economics profession should, in my opinion, create a new construct. In the meantime, the rest of us should create bulwarks to prevent the prevailing consensus from continuing to foment booms and busts. I think the best available bulwark is rigorous stress testing, as more fully explained in Part VI of this paper.

V. The Role of Banks on the Downside

I have contended that on the upside, where the boom is created, banks and credit play leading roles and that the European banks, in particular, played leading roles in creating the conditions for the 2007-2009 bust. But does that imply that their inability to lend—assertedly due to the need to rebuild their regulatory capital—plays or has played a significant role in creating or sustaining the stagnation on the downside?

I conclude that after the bust, although it is beneficial to recapitalize banks so that they can function normally, undercapitalized banks have not been a significant cause of the stagnation or slow growth that have occurred in the U.S. and Europe. The stagnation or slow growth proceed, I conclude, from the factors that affected the real economy in the first place, not from a lack of lending by banks to creditworthy borrowers.

(My emphasis on "creditworthy" borrowers is not a cop out. It is a recognition of the fact that during the boom, many loans were made to borrowers that could not repay.[5]

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[5] Because of this frequent phenomenon, the use of GDP growth to measure financial health is quite misleading because GDP measures spending, not productive

That is what led to the bust, the large (and still growing) loan loss provisions, and the low (though probably still overstated) capital accounts at many European banks. To suggest that it would be desirable for banks to return to their boom-era credit standards would invite a never-ending process of bank losses and the socialization thereof. I do not think that would be a good policy, though it does appear to have been close to the policies of most European nations over the last few decades.)

My reading of history is that once a nation/society has borrowed to live beyond its means for a period of time, getting back to "normal" quickly is not possible. Even with the best monetary or fiscal policies, the underlying structural problems prevent a quick return to prosperity. It does not matter whether the nation/society borrowed in the private consumer sector (usually through a bloated banking system) or the government sector; the result is the same. The government sector turns out to be simply the aggregate of private sector participants. (For this set of conclusions, I draw on Reinhart and Rogoff, *This Time Is Different,* as well as 46 years of reading financial history and participating in some of it.

It is clear that financial institutions always get into trouble when the assets against which they have lent steeply decline in value. And it is clear that after the assets have declined in value, the flow of cash that came from lending against them stops. And it is clear that at the same time, the economy stops growing and almost always contracts. But what is the role of the financial institutions? Are they a cause of the economic contraction or is their distress merely a coincident indicator? In *This Time Is Different*, Reinhart and Rogoff said that they did not know the answer to that question. It is unfortunate, therefore, that after making that disclaimer, they wrote as if financial sector stress (banking crises in their terms) caused the economic contractions. That has misled many readers, including professional ones. (If you are in that category, please re-read This Time Is Different. It is a worthwhile exercise. It is a great book but a hard slog.)

Although I am not certain about all cases, I suggest that in the U.S. Great Recession, the banking crisis was a coincident indicator, not a cause. In Europe, the evidence is not as clear. But if we do not take the extreme liquidity of 2004-2006 as normal—or even desirable—then I think we can see the European banking crisis as merely coincident. For example, Germany has remained relatively healthy economically not because its banks are healthier—Deutsche and Commerzbank, to say nothing of the Landesbanks, remain undercapitalized. If undercapitalized banks led to economic stagnation or contraction, Germany would have suffered the same fate as Spain or Italy. The difference is that the German real economy is globally competitive. It is not called the REAL economy for nothing. Finance is merely a handmaiden.

The significant difference between the roles of banks in the U.S. on the one hand and in Europe on the other hand is shown by the following excellent chart from the Noeth and Sengupta St. Louis Fed paper that I have described.

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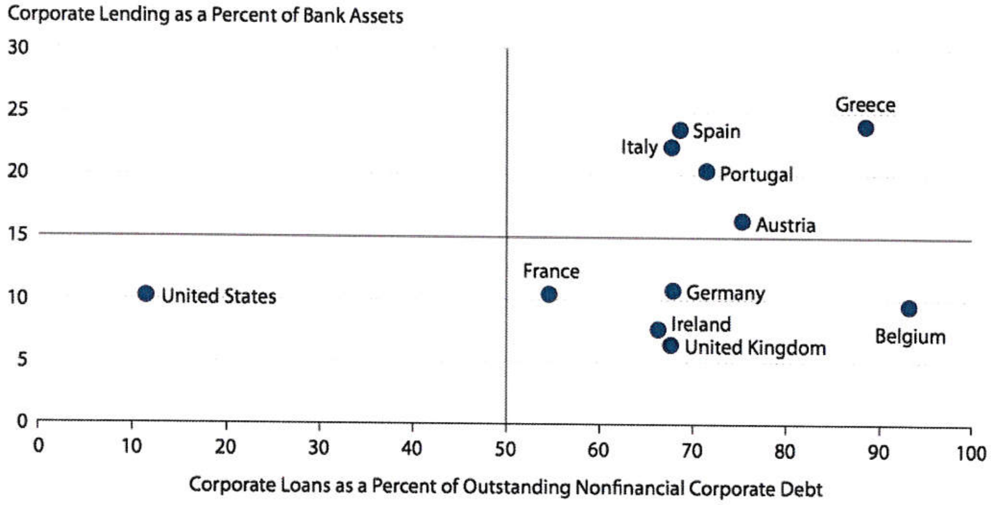
activity. This natural problem of apparently healthy financial institutions lending too freely and thus masking serious economic ills was illustrated both in Europe and in the U.S. in the 2003-2007 period. I am not going to try to address what better way there might be to measure productive economic activity.

Reliance on Bank Funding by Non-Bank Institutions



SOURCE: ECB, Eurostat, Federal Reserve from IMF report (2012).

http://research.stlouisfed.org/publications/review/12/11/Noeth.pdf

Based on this stark difference, it would not be surprising if the reduced flow of credit from banks in Europe had played a material role in preventing the economies from growing, even if it did not in the U.S. The contrast between the speed with which U.S. banks restored themselves to capital adequacy and the desultory efforts of the European banks to do so might suggest that Europe's slower, more halting recovery is due to that difference.

I question whether the role of the European banks in holding back the European economies was central to the outcomes, however, because the European countries whose economies have performed badly have had all of the detriments of non-competitiveness in addition to the headwinds of falling real estate prices and, therefore, falling household net worth and spending wherewithal.

I submit that financial institutions need not be an important part of the problem on the downside. That is, the pullback in lending that signals the beginning of the period of relative austerity (regardless of government policies) does not *cause* the crisis. It is merely the inevitable result of the over-borrowed condition of the nation/society. At some point, the flood of credit has to stop. And when it does, assets fall in value and credit therefore has to contract. Thus the lack of financial strength of financial institutions is a symptom but not a cause of the malaise. Nursing the financial institutions back to health, therefore, however desirable, will not end the economic malaise. The U.S. financial system came back to health fairly quickly. And business investment came back quite quickly, as the following set of graphs (published by Floyd Norris in *The New York Times*) shows. Thus, in the U.S., despite a relative lack of bank lending in the aftermath of the Great Recession, business investment came back stronger than usual. Loan demand at banks remained weak, but businesses borrowed in the capital markets and utilized cashflows for investment. Nevertheless, job creation was weak and overall economic recovery was slow. It was the consumer side of the economy that lagged.

Published: May 3, 2013

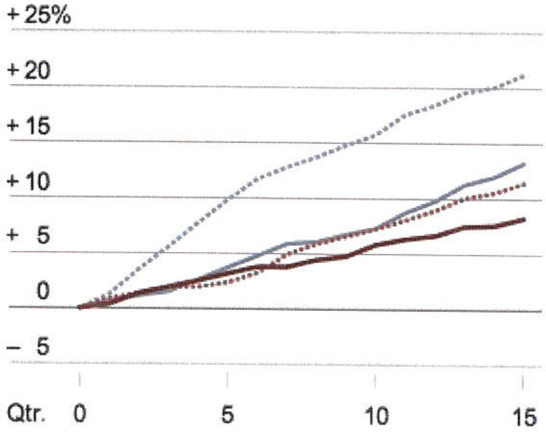
Off the Charts: For Business, a Strong Recovery

The recovery since the recession that ended in 2009 has been the weakest in decades, as measured by the change in gross domestic product. That is mainly due to a shrinking government sector and to relatively slow growth in consumer spending. But business investment has risen at an impressive rate. Corporate profits are higher than in three previous recoveries, and taxes on those profits are lower. Related Article »

Recession ending in 1982 ······ 1991 —— 2001 ······ **2009 ——**

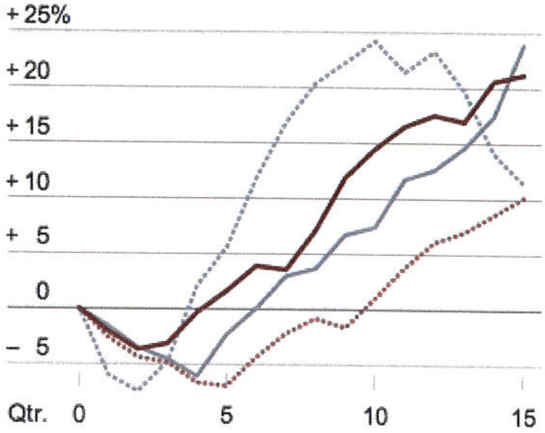
GROSS DOMESTIC PRODUCT

Change after end of recession



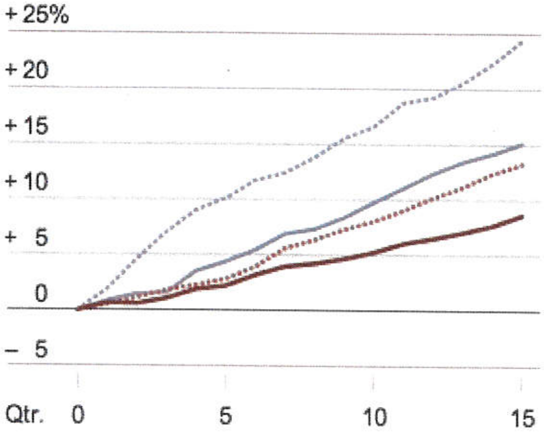
BUSINESS INVESTMENT

Change after end of recession



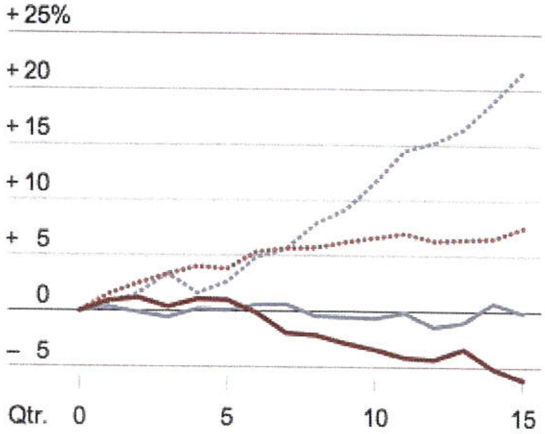
CONSUMER SPENDING

Change after end of recession



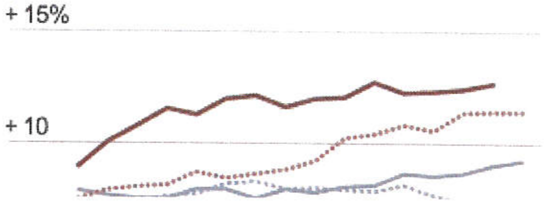
GOVERNMENT SPENDING

Change after end of recession



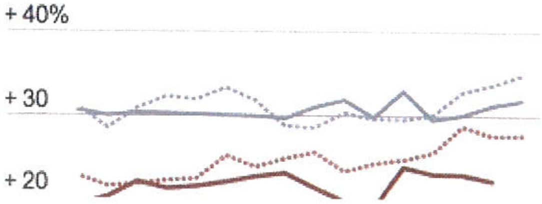
CORPORATE PROFITS

Before tax, as percent of G.D.P.



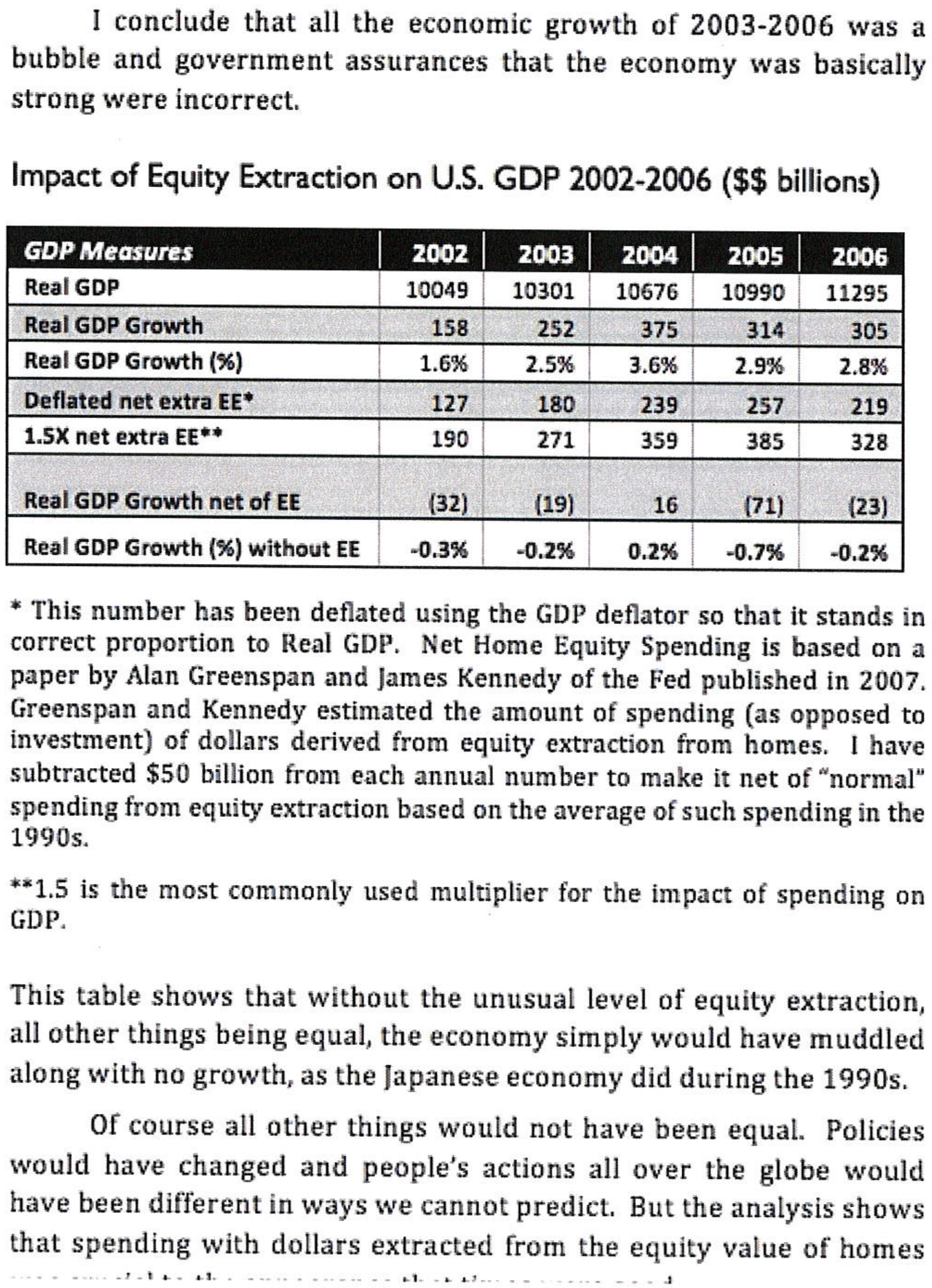
CORPORATE INCOME TAXES

As percent of pre-tax profits



http://www.nytimes.com/interactive/2013/05/03/business/For-Business-a-Strong-Recovery.html?ref=economy (Floyd Norris)

The reasons that the consumer side of the U.S. economy lagged were (1) little job creation, and (2) a reversal of the process of home equity extraction that had powered the boom. Without the home equity extraction, there would have been no boom, and when it reversed and turned negative, that was effectively a double whammy. I believe that the home equity extraction data that I published in *Debt Spiral* (2009) was basically correct. Here is what I said:



I conclude that all the economic growth of 2003-2006 was a bubble and government assurances that the economy was basically strong were incorrect.

Impact of Equity Extraction on U.S. GDP 2002-2006 ($$ billions)

GDP Measures	**2002**	**2003**	**2004**	**2005**	**2006**
Real GDP	10049	10301	10676	10990	11295
Real GDP Growth	158	252	375	314	305
Real GDP Growth (%)	1.6%	2.5%	3.6%	2.9%	2.8%
Deflated net extra EE*	127	180	239	257	219
1.5X net extra EE**	190	271	359	385	328
Real GDP Growth net of EE	(32)	(19)	16	(71)	(23)
Real GDP Growth (%) without EE	-0.3%	-0.2%	0.2%	-0.7%	-0.2%

* This number has been deflated using the GDP deflator so that it stands in correct proportion to Real GDP. Net Home Equity Spending is based on a paper by Alan Greenspan and James Kennedy of the Fed published in 2007. Greenspan and Kennedy estimated the amount of spending (as opposed to investment) of dollars derived from equity extraction from homes. I have subtracted $50 billion from each annual number to make it net of "normal" spending from equity extraction based on the average of such spending in the 1990s.

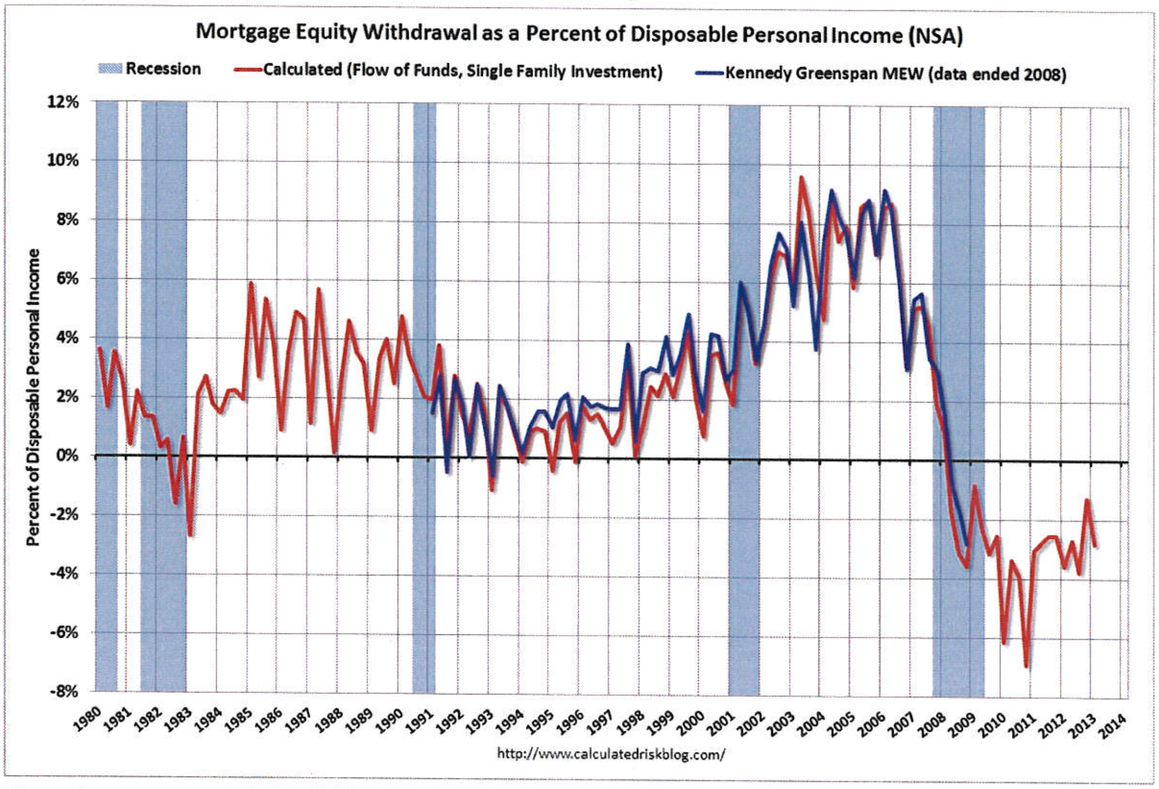
**1.5 is the most commonly used multiplier for the impact of spending on GDP.

This table shows that without the unusual level of equity extraction, all other things being equal, the economy simply would have muddled along with no growth, as the Japanese economy did during the 1990s.

Of course all other things would not have been equal. Policies would have changed and people's actions all over the globe would have been different in ways we cannot predict. But the analysis shows that spending with dollars extracted from the equity value of homes

If anything, today I would find that without home equity extraction the economy would have been even worse off than I thought. And if we subtracted what the wars in Iraq and Afghanistan added to GDP as well as the home equity extraction, the picture of the U.S. economy in the 2002-2006 period would be quite sad indeed.

The following graph from Bill McBride at Calculated Risk shows how mortgage equity withdrawal both pumped up consumers' ability to spend in the boom years and deprived consumers of spending power during the recession and after it. McBride (a national treasure) uses the same Greenspan and Kennedy data that I used in 2009, extended through 2008 by Kennedy, and augmented by data from the Fed Flow of Funds through early 2013. He updates the table monthly.



http://www.calculatedriskblog.com/

Thus the consumer's inability to spend following the recession can, in a sense, be traced to a lack of borrowing. But that lack of borrowing resulted from a lack of borrowing capacity and the relative waste of what consumers had borrowed in the apparent boom years. (Borrowing for current consumption brings economic activity forward, but at the expense of reducing economic activity when the loans have to be repaid. High-cost credit produces a double whammy.)

One factor that seems to have prevented job creation, both in the U.S. and in Europe, is the decrease in labor's share of income. Rather than hiring, many companies are investing in labor saving technologies. See http://faculty.chicagobooth.edu/loukas.karabarbounis/research/labor_share.pdf for a set of graphs that illustrate the trend. The authors suggest that the low cost of capital is accentuating the trend. See also Thomas B. Edsall [get cite] in *The New York Times*, June XX, 2013.

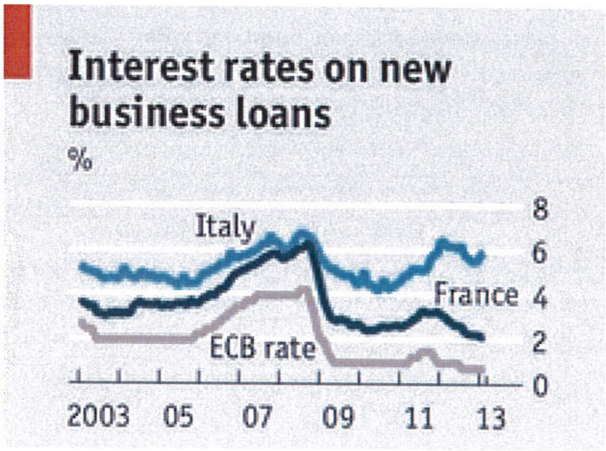
How do we compare the U.S. experience with the European experience? In Europe of course, the financial system did not get recapitalized. And the capital markets are not as robust. Therefore it may be that undercapitalized banks are holding back on making loans and that is damaging the European economies, as press reports would suggest. I do not have a way to test the accuracy of those reports. So I have tried to assemble data, experience and logic to test whether low bank capital is holding back the European economies materially.

First, based on experience, I never met a banker (and I did represent some Italian banks) that did not want to make a good loan. Unlike bankers during the boom, who seemed to think all borrowers were creditworthy and all assets would appreciate, post-bust bankers probably are looking for good credits that will not result in the high levels of provisions that the old credits caused.

Nevertheless, because of southern Europe's employment dependence on small and medium-sized firms (SMEs). the scale of the credit problem could be large compared with the size of the economies and the credit markets. Whereas only about half of America's jobs are in SMEs, in Europe such firms play a far bigger role. In France SMEs employ 60% of workers, in Spain the figure is 67%—and in Italy, 80%.

Because small firms do not issue bonds or sell equity in public markets, they rely on banks for borrowing. And since small firms are so vital, one of the currently fashionable measures of economic health in the euro area is how cleanly the interest rates set by the European Central Bank (ECB) feed through to the rates that firms pay. By that measure, the first eight years of the single currency were pleasant. If the ECB rate was 2%, firms would pay 4%. The difference between the two was small and it was stable. It made policy decisions easy: if the ECB thought the economy was overheating, it could raise its rates, confident that the rates firms would pay would rise by the same amount.

But that system has broken down according to *The Economist*: The stable wedge between ECB rates and firms' borrowing costs has been replaced by an unstable gap that varies by country. In Germany and France things are still close to how they were in the good years. The ECB rate has been 0.75%; firms have been paying around 3.5% to borrow. But in Italy and Spain the wedge has almost tripled in size, in part because banks there are paying more to borrow. When fears rise, most recently in response to the mess in Cyprus, funding costs to banks spike and are then passed on to firms. So SMEs in Spain and Italy must pay over 6% to borrow; money costs more in those countries than it did in 2005, even though the ECB's policy rate is far lower. The following graph from *The Economist*, May 4, 2013 illustrates the differences:



Facing higher interest rates, Italian firms paid back 10% of their loans in the past year. In Spain things are even worse: rates are higher still and total lending has dropped by 15%, *The Economist* reported.

The Economist's sister publication, the *FT*, reported that "Small and medium sized businesses that form the backbone of the Spanish and Italian economies have seen their borrowing costs rise to unaffordable levels during the crisis while interest rates charged to their German counterparts are near record lows, reflecting the ECB's rates." http://www.ft.com/intl/cms/s/0/b43f0962-cc63-11e2-9cf7-00144feab7de.html#axzz2VCxigVqH But the same newspaper reported the same day that the rates were under 6%. http://www.ft.com/intl/cms/s/0/a126d3ee-8cd2-11e2-8ee0-00144feabdc0.html#axzz2VCxigVqH Yes, rates for German firms were lower. But look at the situation from a banker's point of view: Italy and Spain are in recession, making their companies riskier, and at least in Italy, that riskiness has been reflected in Italian banks having to make large provisions for bad loans, even by Europe's permissive reserving standards. UniCredit, for example, had to triple its loan loss provisions in the fourth quarter of 2012 and the Bank of Italy has been forecasting that Italian banks will have to raise their provisions in the future. See http://www.bloomberg.com/news/2013-03-15/unicredit-swings-to-fourth-quarter-loss-as-writedowns-increase.html and http://online.wsj.com/article/BT-CO-20130315-706345.html. No matter how well capitalized, a banker should be cautious about lending in countries like Italy and Spain under current circumstances. Thus, although lending is down, is it correct to ascribe that condition to bank capital?

I had a fair amount of experience with SMEs in Italy in the 1980s. What I saw was family-owned companies that were profitable, that expanded only cautiously, that stashed money in Switzerland, and that needed banks only for major expansions or takeovers of other companies that were infrequent. The same phenomenon that I observed in Italy becoming the norm among closely held companies in the U.S., according to a *WSJ* article. They are not big risk-takers and they are not big creators of new jobs. My experience in Italy was that the wealthy business owners did not want labor-intensive investments because of the lack of practical control in such situations. Better to own a radio or TV station than a factory. Stay as far away from unions as possible was a frequent mantra. Although one could pay off the union bosses, that was a nuisance and potentially dangerous.

Look at the issue from the point of view of a closely held business. If the hurdle rate for the business borrower is lower than 6%, then that business cannot be very efficient or profitable. That is, if the company cannot make more on money borrowed at 6%, then the company must be making an ROI of less than 6%. If a company cannot make 10% on its capital, then probably it does not deserve to raise capital at all. So at 6% on a borrowing, it still pays an efficient, profitable company to borrow—and indeed, in 2007 that is what good Italian and Spanish credits were paying, so in reality, they are not now being required to pay more.

In Spain, there has been some study of the relationship between capital constraints and reductions of business lending. Here is the basic conclusion of one such study published by the Bank of Spain:

> "Nevertheless, our back-of the envelope computations suggest a limited role for the capital channel during the sample period we consider (accounting for between 6 and 23 percent of the actual credit drop). Overall, our preferred estimates suggest that the deterioration of banks' capital position has had a negative but limited effect on the supply of loans to firms."

Here is the conclusion restated:

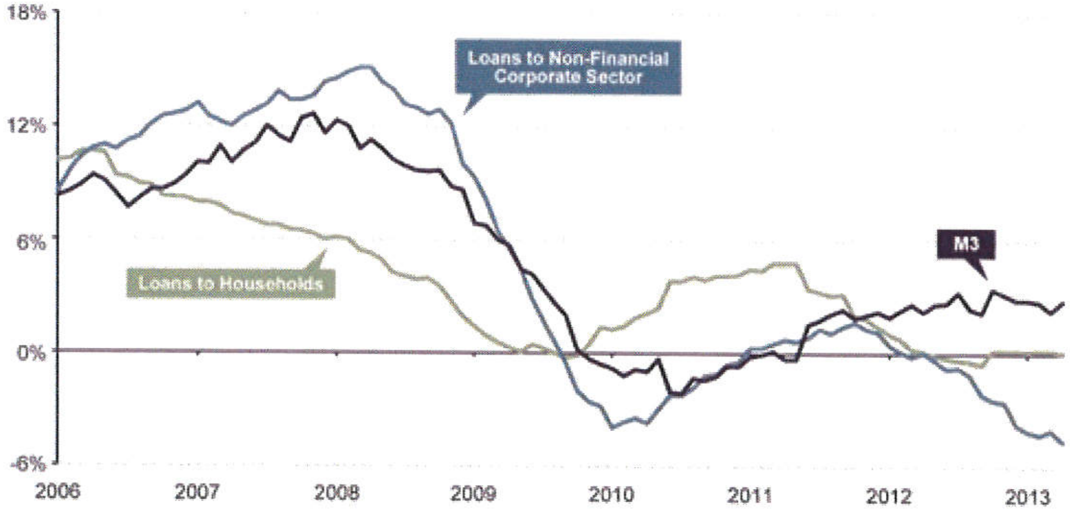
> "Overall, we find that banks' actual capital growth has been a relevant factor to explain lending supply, at least in 2009. Our interpretation is that banks that have experienced capital shortfalls or banks that have increased their capital but without reaching the level that is demanded by financial markets might have had no option but to reduce their lending.
>
> "The assessment of the magnitude of the effect is necessarily tentative as different assumptions are needed and different approaches lead to a wide range of estimates for this magnitude. In particular, we find that the contraction in lending stemming from the deterioration in banks' capital position associated to the fall in housing prices accounts for between 6 and 25% of the observed decline in lending growth in 2009. In our view, the relatively small magnitude of this effect is explained by the weakness of loan demand in a context of a deep recession. However, as loan demand reacts to the economic recovery, the capital position of particular institutions might become more binding and this channel might gain in strength."
>
> http://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSeriadas/DocumentosTrabajo/12/Fich/dt1206e.pdf

Thus the only study of the impact of capital constraints in Italy or Spain that I have been able to find is basically inconclusive but suggests that capital constraints do not account for most of the decline in lending.

If we look at overall lending in the euro area, however, we find that it did not decrease following the recession (at least until 2012). It merely stopped increasing at a high rate and stagnated, as shown by the following graph.

Year-over-Year Change In Eurozone M3 Money Supply And Bank Lending

(click to enlarge)



Source: European Central Bank, Haver Analytics, Guggenheim Investments. Data as of 4/30/2013.

http://seekingalpha.com/article/1471591-morning-in-a-new-europe?source=email_macro_view&ifp=0

At this point in my research, I cannot come to a definite conclusion about the impact of low capital accounts at European banks on the economies of countries like Italy and Spain. I am confident, however, that the financial media in Europe have overstated the impact and that it is not a major part of the current economic malaise. Probably it is singled out because it is easy to identify and it suits the bankers' efforts to escape from tighter regulatory capital requirements. The more one reads the financial press, the more inclined one is to think it is easily captured by the banks.

Yes, I agree that bank financing in the euro area is tighter than it was in 2006. In that year, European banks were awash in cash and looking for somewhere to deploy it. In such circumstances, the banks lend imprudently, which naturally led later to the provisioning that the Italian banks now are reporting. Naturally credit tightens—and it should. Making the banks awash in cash again so they will make bad loans again merely threatens to repeat the cycle.

The fact that the *FT* and the *Economist* (jointly owned), two prominent business newspapers, seem to look back to 2004-2006 as a halcyon era of lending evidences a significant misunderstanding among European business publications—and perhaps among economists. They seek a return of 20004-2006, when the seeds of the bust were sown, because liquidity was high and credit was relatively cheap (though in a gross way, dearer than it is today). I suggest that wish is a part of the problem, not a part of the solution. Going back to the easy money of the brief boom era almost surely would lead to another bubble and another bust, albeit probably not as big a bust.

More basically, however, I would suggest that the contemporary vision of the SMEs as the engine of future economic growth in Italy and Spain is not realistic—for reasons having nothing to do with bank financing. (The reasons lie in global competiveness, labor market rigidities, and family ownership.) Jobs are created by innovators, not by stable family businesses. And the jobs the innovators create are for the educated, not for laborers. The standardized parts of the innovative creations will be made or done by people in low wage countries, not by Europeans or Americans. How robotics etc. will further alter that equation to the detriment of workers remains to be seen, but it is not going to be held back by governments.

VI. How Supervision May Be Enough

Claudio Borio, with whom I had an imaginary conversation that I reported in Part III, and his colleague Piti Disyatat wrote one of the best articles on the origins of the naughties boom and bust. In that article, they said:

> "We have argued that the fundamental weaknesses in the international monetary and financial system stem from the problem of 'excess elasticity': the system lacks sufficiently strong anchors to prevent the build-up of unsustainable booms in credit and asset prices (financial imbalances) which can eventually lead to serious financial strains and derail the world economy. Reducing this elasticity requires that anchors be put in place in the financial and monetary regimes, underpinned by prudent fiscal policies." http://www.bis.org/publ/work346.pdf

Professors Acharya and Schnabl, in their 2009 article on ABCP observed:

> "Although many reforms to the financial sector are being proposed, one seems most important to us: the quality of enforcement of capital requirements (and not just their level). Not allowing global imbalances to find their way into the poorly capitalized shadow banking world of ABCP conduits might have simply reversed or at least blocked the pattern of capital flows, and enabled financial regulators worldwide to effect a (relatively) market-based correction to the global imbalances." http://www.palgrave-journals.com/imfer/journal/v58/n1/pdf/imfer20104a.pdf

I see the same need for strong anchors that Borio and Disyatat have called for and I see the same need for quality application of regulatory capital rules that Acharya and Schnabl have argued for. I see prudential supervision through rigorous stress testing as the best means to achieve both goals.

There is a respectable literature that has looked at the possibility that prudential supervision could do a better job than monetary policy in preventing credit-fuelled asset bubbles, which are the only kind of asset bubbles that are dangerous (see my separate paper on that subject). The most interesting such paper that I have seen was presented by two Australian supervisors at a conference on asset bubbles sponsored by the World Bank and the Federal Reserve Bank of Chicago in 2002: Jeffrey Carmichael and Neil Esho, "Asset Price Bubbles and Prudential Regulation," in *Asset Price Bubbles*, Hunter, Kaufman & Pomerleano eds. (MIT Press 2003). Please note that the Carmichael-Esho paper was presented at a conference on asset price bubbles after the dotcom bust but before the real estate price boom. I am going to describe that paper in some detail because it poses the issues very concretely and answers them in a manner that is forthright but, in my view, inadequate. The forthright conclusions leave open the possibility that a better thought-out system of supervision could, in combination with market forces, produce the desired effect without incurring the undesirable risks that the authors outline.

Carmichael and Esho ask whether appropriate regulatory policies reduce the procyclicality of the financial system and whether "a strong banking system that correctly measures and prices risk can reduce the likelihood of asset bubbles developing." In connection with those questions, the authors ask: (1) Do bubbles actually cause damage to the real economy? (2) Is there a relationship between the formation and bursting of bubbles and the behavior of banks? (3) Can regulation influence banks' behavior without material side effects?

After reviewing more than a century of Australian experience, Carmichael and Esho conclude that: (1) Bursting of an asset price bubble can be bad for the real economy, and that its impact can be amplified by a resulting financial crisis. (2) Although banks are a major source of the credit that fuels booms, unregulated institutions also play a role in providing such credit. (3) Even if the expansion of total credit is not excessive, credit in a particular sector may be excessive.

To reduce the possibility of booms, the authors investigate four types of regulatory responses: (1) restrictions on portfolio composition, (2) risk-based capital requirements, (3) loan loss provisioning, and (4) stress testing of market risk exposures. They find that portfolio composition restrictions are more cumbersome than useful, that risk-based capital adequacy has its place but does not adequately do the job of keeping credit in check, that expanded provisioning can be useful but its adequacy is hard to judge, and that stress testing, though promising, is not yet fully developed (in 2002) and applies only to banks, not to non-bank lenders. Here is what they said about stress testing:

> "The use of stress testing as a regulatory tool is, however, still in the development stages and is subject to several limitations. First, the use is primarily in identifying risk rather than controlling it. The response of the regulator to an assessed exposure of financial stability to the bursting of an asset price bubble is still a matter of judgment. Second, the results of stress tests are only as good as the risk models developed by the banks for their own use. . . . Third, even where the models exist, the complexity, cost and time to run reliable stress tests makes frequent testing infeasible.
>
> "Notwithstanding these limitations, as internal models become more reliable and more widely used, stress testing may prove to be the most effective means of identifying the extent of financial sector exposure to price reversals. . . .
>
> "To the extent that there is a role for regulation in dealing with bubbles it is in preventing banking crises in the wake of an asset price collapse."

Carmichael and Esho did not foresee a number of developments concerning stress testing nor did they perceive the possibility that stress tests could be used to inform the capital markets in general about the risks of particular types of credit that may be fuelling an asset bubble.

First, the Fed's use of stress tests over the last four years have strengthened the banks' internal models, strengthened the Fed's own models, strengthened the Fed's ability to pose appropriate stress scenarios, and made frequent stress testing of large financial firms quite feasible—indeed, almost routine.

Second, Carmichael and Esho assumed that the regulator administering the stress tests would have to come to a conclusion regarding a nascent bubble in order to prevent its fruition, whereas when the stress tests are used as part of capital adequacy testing, the ex ante effect on bank conduct is judged by the bank, not by the regulator, and is, therefore, effectively self-executing. That is, if the stress test exposes a type of credit that is subject to significant losses in a stress scenario, then banks that extend such credit will tend to reassess whether they are granting such credit on appropriate terms or improvidently. The banks will have an incentive to do this because if they do not take such action, their effective cost of capital will automatically increase. This reality eliminates the need for the regulator to make the difficult decision to restrict credit, whether by monetary or supervisory means. That is an important aspect of any workable system because any such decision by a regulator is bound to be controversial and politically difficult. A successful system therefore cannot rely on such judgments.

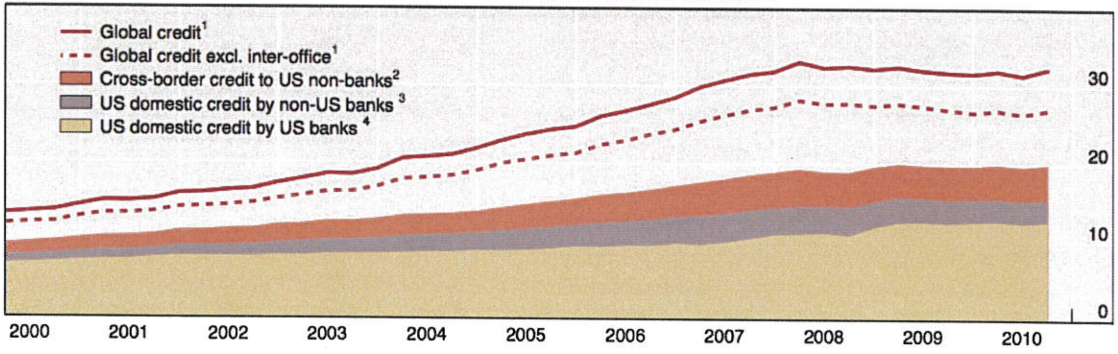
(Parenthetically, the stress test removes any distinction between adequate provisioning and adequate capital. The bottom line of the stress test evaluates adequate capital after loan loss provisions have been taken into account.)

Third, Carmichael and Esho correctly pointed out that non-bank lenders would have to be included in any stress test regime that aimed to prevent credit-fuelled booms from occurring. As the following graph shows, credit in the U.S. comes not only from the banking system but from other sources as well.

Graph 12

Composition of worldwide US dollar bank credit

Amounts outstanding, in trillions of US dollars



[1] Approximated by US dollar foreign claims vis-à-vis counterparties in all countries. Foreign claims are composed of cross-border claims booked by banks located in all reporting countries plus local claims (ie claims on residents of the banks' host country) booked by banks located outside the United States. Claims include also interbank claims. [2] Cross-border claims on non-banks in the United States by banks located in other BIS reporting countries (excluded from US domestic credit statistics). [3] Local US dollar claims booked by non-US banks located in the United States. [4] Estimated as total US domestic credit less US dollar-denominated local claims booked by foreign banks in the United States.

Sources: BIS international locational and consolidated banking statistics; IMF.

http://www.bis.org/publ/work346.pdf

I believe it would be possible to design a system that applied to all large lenders into a national market regardless of their nationality or organizational form. In that connection, it would not be necessary to subject all such lenders to either prudential supervision or regulatory capital requirements. It would be sufficient to subject them to the stress-testing regime in the same manner as applied to large banks, with the resulting impact on their capital or net asset value publicized. A mutual fund or insurance company or hedge fund that had to disclose the likelihood of substantial losses in a stress scenario would, I believe, have sufficient incentive to reduce that likelihood.

I am not so naïve as to think that credit providers would not try to remove the riskiest assets from their balance sheets while retaining some of the benefits of risky lending. Derivative instruments make such obfuscation more likely and harder to detect. But I would hope that the experience of the latest financial crisis would induce regulators not to permit off-balance-sheet treatment of assets or exposures as to which the financial institution has retained substantial risk. In addition, unless many financial intermediaries use techniques that obfuscate their real risks, the objective of influencing the credit markets through disclosure of risks still could succeed, and those that had committed the obfuscation could be subject to severe penalties under the securities laws.

Undoubtedly, as central banks gain experience with stress testing and its impact, they will refine their stress test scenarios. One of the things they may do is to focus most closely on those credit categories that have the greatest capacity to cause harm.

Over time and over countries with differing types of financial management, substantially all bubbles that have damaged the real economy have been bubbles in the pricing of real property or assets that lie under real property that have been fuelled by easy credit. The reasons for that, I believe, are: (1) Real property is a large asset category and, even in normal circumstances, an even larger share of credit; thus it has the capacity to make a large impact. Perhaps of all the debt markets in the world, only the U.S. mortgage market was large enough to bring down so many global banks. (2) Lenders against real property tend to lend based on a percentage of the property's value. As values go up, lenders extend more credit. And often they even extend a higher percentage of credit as prices go up on the supposition that prices will continue to rise. That is a part of Minsky's Ponzi capitalism stage. Smaller asset categories are not likely to have great impact on an overall economy. And many asset categories are not financed primarily with debt, as real property typically is.

The lesson of these observations for stress testing is obvious: Regulators should pay attention to the big asset classes and should look for places where their risks have been hidden by the lenders.

I have found no serious attack on the benefits of stress testing.

From a theoretical point of view, utilizing the market to redress the excesses of subsidies should be seen as a part of the stress-testing program. One part of my personal fight against the forces of anti-regulation is to show that what financial regulation needs to do is to push back against government subsidies. That is, far from preventing the free market from working, financial regulation should have as a goal restoring the ability of the market to operate. Financial companies of course deny this is true, since their principals make their livings by skimming the benefits of the subsidies, but conservatives who cannot be bought should see through the propaganda put out by bankers wrapped in the national flag of growth promoted by credit.

One of the goals of a rigorous stress-testing regime is to give the market sufficient information that it can more effectively discipline the firms that benefit from the subsidies.

I see little prospect of the Europeans adopting a rigorous stress-testing regime in the near future. So far, European stress testing has been close to risible. But stability in the U.S. financial system for a decade or two might cause Europe to adopt a rigorous stress-testing regime in a generation.

Appendix A—FIN 46

To come. Will describe the process by which the Fed permitted banks to guarantee the repayment of loans but still remove them from their balance sheets.

Appendix B—European Banks' Mismatches

To come. Will describe the currency and maturity mismatches that ended in the Fed having to bail out several of Europe's leading banks through various liquidity measures.

From: Haraf, William (Bill) <wharaf@promontory.com>
Sent: Wednesday, September 18, 2013 8:32 PM
To: Venchiarutti, Robert@DBO
Subject: Heads Up

Wanted to make sure knew that I am joining Chris Larsen of OpenCoin at DBO meeting tomorrow.

I think you we're informed about this, right? I understand that the commissioner is joining by phone.

Best,

Bill

Sent from my iPad

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From:	Venchiarutti, Robert@DBO
Sent:	Wednesday, September 18, 2013 10:19 PM
To:	Haraf, William (Bill)
Subject:	Re: Heads Up

I think I saw an email that you might be coming, but I was not sure. Looking forward to the meeting. I was the one who suggested the idea because I thought his presentation was excellent, and folks here would really benefit from hearing directly from Chris.

By the way, I did not set up the meeting. I believe Jan is going to try to call in but I am not sure.

Take care.

Bob

Sent from my Verizon Wireless 4G LTE DROID

"Haraf, William (Bill)" <wharaf@promontory.com> wrote:

Wanted to make sure knew that I am joining Chris Larsen of OpenCoin at DBO meeting tomorrow.

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From:	Haraf, William (Bill) <wharaf@promontory.com>
Sent:	Thursday, September 19, 2013 4:04 PM
To:	Duncan, Shana
Cc:	Venchiarutti, Robert@DBO
Subject:	Brindisi

Shana,

Kindly propose some dates for Bob and I to have lunch at Brindisi, hopefully next week or the week after.

Bill

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From: Duncan, Shana <sduncan@promontory.com>
Sent: Thursday, September 19, 2013 5:22 PM
To: Venchiarutti, Robert@DBO
Cc: Haraf, William (Bill)
Subject: RE: Brindisi

Hi Bob,

Bill is available for lunch on the following dates:

9/24, 9/26, 9/30, 10/2 & 10/3.

Please let me know if any of these work well for you.

Best,
Shana

Shana Duncan
Promontory Financial
Spear Tower, 1 Market Plaza, Suite 4100 I San Francisco, CA 94105
Tel: (415) 986-4159
Email: sduncan@promontory.com

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Sent: Thursday, September 19, 2013 4:04 PM
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Cc: Robert.Venchiarutti@dbo.ca.gov
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From:	Haraf, William (Bill) <wharaf@promontory.com>
Sent:	Thursday, September 19, 2013 4:44 AM
To:	Venchiarutti, Robert@DBO
Subject:	Re: Heads Up

See you soon...

Sent from my iPad

On Sep 18, 2013, at 10:19 PM, "Venchiarutti, Robert@DBO"
<Robert.Venchiarutti@dbo.ca.gov<mailto:Robert.Venchiarutti@dbo.ca.gov>> wrote:

I think I saw an email that you might be coming, but I was not sure. Looking forward to the meeting. I was the one who suggested the idea because I thought his presentation was excellent, and folks here would really benefit from hearing directly from Chris.

By the way, I did not set up the meeting. I believe Jan is going to try to call in but I am not sure.

Take care.

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Sent from my Verizon Wireless 4G LTE DROID

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McGuffin, Matthew@DBO

From: Venchiarutti, Robert@DBO
Sent: Thursday, September 19, 2013 5:25 PM
To: Duncan, Shana
Cc: Haraf, William (Bill)
Subject: RE: Brindisi

9/30 would be ideal for me.

Thanks.

Robert Venchiarutti
Deputy Commissioner, Money Transmitter Division
Department of Business Oversight
Division of Financial Institutions
45 Fremont Street, 17th Floor
San Francisco, CA 94105
(415) 263-8511

From: Duncan, Shana [mailto:sduncan@promontory.com]
Sent: Thursday, September 19, 2013 5:22 PM
To: Venchiarutti, Robert@DBO
Cc: Haraf, William (Bill)
Subject: RE: Brindisi

Hi Bob,

Bill is available for lunch on the following dates:

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Shana Duncan
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Spear Tower, 1 Market Plaza, Suite 4100 I San Francisco, CA 94105
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From:	Venchiarutti, Robert@DBO
Sent:	Friday, September 20, 2013 8:05 AM
To:	Shapiro, Adam
Cc:	Haraf, William (Bill)
Subject:	Re: Promontory Sightlines InFocus: The Way Forward for Digital Currencies

Thanks for the link. We had a great meeting yesterday. We really appreciate the approach Chris (and the Ripple team) is taking to all of this.

Take care.

Bob

Sent from my Verizon Wireless 4G LTE DROID

"Shapiro, Adam" <ashapiro@promontory.com> wrote:

Bob,

I hope you are well and we get to catch up soon. I thought you might be interested in this article we published yesterday. If there is any place you think we are off base, we'd be interested to hear.

All the best,

Adam

From: Promontory Sightlines
Sent: Wednesday, September 18, 2013 8:11 AM
To: Promontory Sightlines
Subject: Promontory Sightlines InFocus: The Way Forward for Digital Currencies

Dear Clients and Friends --

Digital currencies have reached a critical — and delicate — moment in their evolution. U.S. regulators and law enforcement are increasingly focused on the potential use of digital currencies to finance criminal activities, including terrorism. Regulators outside of the U.S. are monitoring the digital-currency market and are likely to devote greater resources to its oversight if its growth continues.

Responding to regulators' concerns will require digital-currency firms to make major changes to current practices and technology. The changes will likely alienate some users, but increasingly severe enforcement actions — which are almost certain without further prompt action by the digital-currency industry — is an even greater threat to the industry's viability. Please click here to a read a *Sightlines InFocus* by Adam Shapiro, "The Way Forward for Digital Currencies," which explains the risks that digital-currency firms must address, and offers practical steps to mitigate those risks. We welcome your comments about *Promontory Sightlines*, and encourage you to let us know about topics that are of greatest interest to you. You can reach the editors at sightlines@promontory.com.

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From:	Shapiro, Adam <ashapiro@promontory.com>
Sent:	Friday, September 20, 2013 1:06 AM
To:	Venchiarutti, Robert@DBO
Cc:	Haraf, William (Bill)
Subject:	FW: Promontory Sightlines InFocus: The Way Forward for Digital Currencies

Bob,

I hope you are well and we get to catch up soon. I thought you might be interested in this article we published yesterday. If there is any place you think we are off base, we'd be interested to hear.

All the best,

Adam

From: Promontory Sightlines
Sent: Wednesday, September 18, 2013 8:11 AM
To: Promontory Sightlines
Subject: Promontory Sightlines InFocus: The Way Forward for Digital Currencies

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Promontory Sightlines

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From: Haraf, William (Bill) <wharaf@promontory.com>
Sent: Monday, September 30, 2013 9:24 AM
To: Venchiarutti, Robert@DBO
Subject: Re: Lunch Today

K. I will get back to you.

Sent from my iPhone

On Sep 30, 2013, at 8:24 AM, "Venchiarutti, Robert@DBO" <Robert.Venchiarutti@dbo.ca.gov<mailto:Robert.Venchiarutti@dbo.ca.gov>> wrote:

Hi Bill,

I am taking a sick day today and won't be able to make lunch. Sorry about that. Maybe we can try for this Friday? Or just let me know what dates work on your end in the next couple of weeks.

Thanks.

Bob

Sent from my Verizon Wireless 4G LTE DROID

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From: Haraf, William (Bill) <wharaf@promontory.com>
Sent: Monday, September 30, 2013 10:35 AM
To: Venchiarutti, Robert@DBO
Cc: Duncan, Shana
Subject: RE: Lunch Today

Hi Bob,

I have a conflict on Friday. Shana can suggest some other dates.

Hope you get better quickly.

Bill

From: Venchiarutti, Robert@DBO [mailto:Robert.Venchiarutti@dbo.ca.gov]
Sent: Monday, September 30, 2013 8:25 AM
To: Haraf, William (Bill)
Subject: Lunch Today

Hi Bill,

I am taking a sick day today and won't be able to make lunch. Sorry about that. Maybe we can try for this Friday? Or just let me know what dates work on your end in the next couple of weeks.

Thanks.

Bob

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From: Haraf, William (Bill) <wharaf@promontory.com>
Sent: Thursday, October 03, 2013 3:55 PM
To: Venchiarutti, Robert@DBO
Subject: October 17 Wharton/Financial Women's Association Event: New Payments Networks and Virtual Currencies: Are They the Future of Payments?

Hi Bob,

The Wharton School and the Financial Women of San Francisco are co-sponsoring a lunchtime session entitled "New Payments Networks and Virtual Currencies: Are They the Future of Payments?" You can find the announcement here. Feel free to share this with your colleagues. We would welcome participants from DBO to this event.

Best,

Bill

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From:	Venchiarutti, Robert@DBO
Sent:	Friday, October 04, 2013 5:18 PM
To:	Haraf, William (Bill)
Subject:	RE: October 17 Wharton/Financial Women's Association Event: New Payments Networks and Virtual Currencies: Are They the Future of Payments?

Thanks Bill. Been quite a busy week. The silk road arrest is really something, isn't it?

Have a great weekend.

Robert Venchiarutti
Deputy Commissioner, Money Transmitter Division
Department of Business Oversight
Division of Financial Institutions
45 Fremont Street, 17th Floor
San Francisco, CA 94105
(415) 263-8511

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Sent: Thursday, October 03, 2013 3:55 PM
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From:	Haraf, William (Bill) <wharaf@promontory.com>
Sent:	Saturday, October 05, 2013 7:31 AM
To:	Venchiarutti, Robert@DBO
Subject:	Re: October 17 Wharton/Financial Women's Association Event: New Payments Networks and Virtual Currencies: Are They the Future of Payments?

Do I have stories to tell you!

Sent from my iPhone

On Oct 4, 2013, at 5:18 PM, "Venchiarutti, Robert@DBO"
<Robert.Venchiarutti@dbo.ca.gov<mailto:Robert.Venchiarutti@dbo.ca.gov>> wrote:

Thanks Bill. Been quite a busy week. The silk road arrest is really something, isn't it?

Have a great weekend.

Robert Venchiarutti
Deputy Commissioner, Money Transmitter Division Department of Business Oversight Division of Financial Institutions
45 Fremont Street, 17th Floor
San Francisco, CA 94105
(415) 263-8511

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To: Venchiarutti, Robert@DBO
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Bill

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From:	Duncan, Shana <sduncan@promontory.com>
Sent:	Tuesday, October 15, 2013 9:08 AM
To:	Venchiarutti, Robert@DBO
Subject:	Lunch with Bill Haraf

Hi Bob,

I apologize for the delay in getting back to you to reschedule lunch. I meant to "reply all" with my message below, but it looks like I inadvertently replied to Bill only. Here are some dates that work would work for Bill:

Friday, 10/18
Monday, 10/21
Wednesday, 10/22
Thursday, 10/24

Please let me know if any of these would work well for you. And again, my apologies for the delay in rescheduling!

Best,
Shana

From: Duncan, Shana
Sent: Monday, September 30, 2013 4:57 PM
To: Haraf, William (Bill)
Subject: RE: Lunch Today

Hi Bob,

Sorry to hear you're not feeling well. Here are some alternate dates that Bill is available for lunch:

Tuesday, 10/8
Wednesday, 10/9
Thursday, 10/10
Wednesday, 10/16

Please let me know if any of these dates are convenient for you.

Best,
Shana

Shana Duncan
Promontory Financial
Spear Tower, 1 Market Plaza, Suite 4100 I San Francisco, CA 94105
Tel: (415) 986-4159
Email: sduncan@promontory.com

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From: Haraf, William (Bill)
Sent: Monday, September 30, 2013 10:35 AM
To: 'Venchiarutti, Robert@DBO'
Cc: Duncan, Shana
Subject: RE: Lunch Today

Hi Bob,

I have a conflict on Friday. Shana can suggest some other dates.

Hope you get better quickly.

Bill

From: Venchiarutti, Robert@DBO [mailto:Robert.Venchiarutti@dbo.ca.gov]
Sent: Monday, September 30, 2013 8:25 AM
To: Haraf, William (Bill)
Subject: Lunch Today

Hi Bill,

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Thanks.

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Sent from my Verizon Wireless 4G LTE DROID

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From:	Venchiarutti, Robert@DBO
Sent:	Tuesday, October 15, 2013 3:31 PM
To:	Duncan, Shana
Subject:	RE: Lunch with Bill Haraf

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I can make lunch on 10/29 or 11/1. My calendar is unusually busy this month. Things are much clearer in November.

Robert Venchiarutti
Deputy Commissioner, Money Transmitter Division
Department of Business Oversight
Division of Financial Institutions
45 Fremont Street, 17th Floor
San Francisco, CA 94105
(415) 263-8511

From: Duncan, Shana [mailto:sduncan@promontory.com]
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Shana Duncan
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McGuffin, Matthew@DBO

Subject:	FW: CoinBase Meeting with Bob Venchiarutti
Location:	Cable Car (next to CU)
Start:	Fri 10/25/2013 10:00 AM
End:	Fri 10/25/2013 12:00 PM
Show Time As:	Tentative
Recurrence:	(none)
Meeting Status:	Not yet responded
Organizer:	DBO ConfRm SF Fre CblCar

-----Original Appointment-----
From: DBO DFI Conference Room SF Cable Car
Sent: Wednesday, September 18, 2013 9:02 AM
To: DBO DFI Conference Room SF Cable Car; Venchiarutti, Robert@DBO; Prada, Julio@DBO; Torres, Yolanda@DBO; Beauchamp, Todd W. (toddbeauchamp@paulhastings.com)
Subject: CoinBase Meeting with Bob Venchiarutti
When: Friday, October 25, 2013 10:00 AM-12:00 PM (UTC-08:00) Pacific Time (US & Canada).
Where: Cable Car (next to CU)

For those calling in:

Staff Line: 888-405-5987

Participant Code: [redacted]

Leader Code: [redacted]

From:	Haraf, William (Bill) <wharaf@promontory.com>
Sent:	Thursday, October 31, 2013 8:36 AM
To:	Venchiarutti, Robert@DBO
Subject:	NYT: "Bitcoin Pursues the Mainstream"

Circle and Coinbase...

October 30, 2013

By NICK WINGFIELD

The currency known as bitcoin — a much-hyped and much-doubted type of digital cash that can be bought with traditional money — has mostly attracted attention for its popularity in the black market, and for its wildly gyrating valuation.

But some entrepreneurs, investors and even merchants are eyeing a far more mainstream use for it. They are convinced that bitcoin, though not widely understood, offers a path to lower payment processing and more secure transactions. Instead of using bitcoin to buy illegal guns in the recesses of the web, they say, ordinary consumers will use it to buy legal goods from legal retailers — and as easily as they now swipe their credit cards or exchange paper bills.

"I'm confident you will see major worldwide retailers adopting systems built on bitcoin," said Jim Breyer, the Silicon Valley venture capitalist and early Facebook investor who also served on the board of Walmart Stores for more than a decade.

Mr. Breyer is an investor in Circle Internet Financial, one of the host of start-ups trying to find a way to make bitcoin a widely adopted currency for retail payments. The company was started by Jeremy Allaire, a serial entrepreneur, and it aims to be a payment processing system for online and physical merchants, similar to the service PayPal offers online. Along with his venture firm, Accel Partners, and another called General Catalyst Partners, Mr. Breyer has invested $9 million in the company.

One potential obstacle to mainstream acceptance of bitcoin is the sometimes wild fluctuations in its value, which makes it alluring to currency speculators but could scare off ordinary consumers. One bitcoin was worth just over $200 Wednesday afternoon. Someone who bought a bitcoin in early April paid as much as $266 for it.

Only a small and motley assortment of merchants now accept bitcoin as payment, and in many cases they do it largely as a marketing strategy. The list includes a winery in British Columbia, the popular online dating site OkCupid and a Seattle lunch truck that specializes in grilled cheese sandwiches. A start-up called Gyft lets people buy electronic gift cards for major retailers with bitcoin, and this week an A.T.M. in Vancouver, Canada, began issuing bitcoin to people in exchange for cash.

"We pride ourselves on being the nerdiest online dating site," said Sam Yagan, co-founder of OkCupid, which is owned by IAC/InterActiveCorp, a media and Internet company. "We were like, 'This is cool and we should do it.' "

Since bitcoin emerged in 2009, many of those who flocked to the currency celebrated it for being beyond the clutches of governments and other institutions. Until recently, the currency lubricated transactions on Silk Road, one of the Web's biggest bazaars for drugs, forged documents and other contraband. The site wasshut down in early October by federal authorities.

New bitcoin is created on computers connected through a peer-to-peer network. An algorithm controls the production of new bitcoin, which is meant to mitigate the risk of inflation.

Already, though, businesses transferring and exchanging bitcoin find themselves in regulators' cross hairs.

In March, the Financial Crimes Enforcement Network, part of the Treasury Department, issued guidelines telling businesses involved in the exchange of digital currencies that they needed to register as money services businesses and comply with a variety of rules to prevent money laundering. New York's Department of Financial services began an inquiry in August to determine guidelines for digital currency businesses, issuing nearly two dozen subpoenas to start-ups, investors and others involved in the emerging field.

Patrick M. Byrne, chief executive of the online retailer Overstock.com, said his company was talking about accepting bitcoin, but it decided to pause its plans until legal matters around the currency were clarified.

Fred Ehrsam, co-founder of Coinbase, a start-up that helps merchants accept bitcoin and helps consumers obtain it by exchanging traditional currencies, said he thought the demise of Silk Road gave entrepreneurs and investors more confidence in bitcoin.

"The bad guys basically lost," said Mr. Ehrsam, whose start-up has raised over $6 million from Union Square Ventures and others. "It took the single most illegitimate player in the space and wiped them off the map."

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"There have been a number of alternative currencies talked about over time," said Chris Monteiro, a spokesman for MasterCard. "The bottom line is consumers want a payment solution that is safe, simple to use and universally accepted."

Fees for a merchant accepting bitcoin payments often range from nothing to less than 2 percent because of the open nature of the technology. Coinbase, for example, said it did not charge its merchants for the first $1 million in sales, imposing a 1 percent fee after that on the conversion of bitcoin into local currency. Circle said it had not settled on pricing for merchants, but that it would charge them a fee to use its system that would be well below credit card transaction costs.

Mr. Allaire and others predict that merchants will encourage customers to spend bitcoin by passing some of the savings on to them in the form of lower prices or other rewards.

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Other challenges face Circle and other start-ups building new payment systems. For example, it can take several business days to link someone's bank account to their bitcoin. Mr. Allaire of Circle said one of his goals was to make that initial setup much faster.

Mr. Allaire also said his company, which is based in Boston, will protect its customers' bitcoin by creating "offline reserves" — batches of the digital currency on physical storage devices, like a hard drive, not connected to the Internet. The offline bitcoin reserves will be protected by armed guards, he said.

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"It's similar to me in import as the web browser," he said. "It's as exciting and significant as that."

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McGuffin, Matthew@DBO

From:	Venchiarutti, Robert@DBO
Sent:	Thursday, October 31, 2013 9:05 AM
To:	Haraf, William (Bill)
Subject:	RE: "Bitcoin Pursues the Mainstream"

Thanks.

Robert Venchiarutti
Deputy Commissioner, Money Transmitter Division
Department of Business Oversight
Division of Financial Institutions
45 Fremont Street, 17th Floor
San Francisco, CA 94105
(415) 263-8511

From: Haraf, William (Bill) [mailto:wharaf@promontory.com]
Sent: Thursday, October 31, 2013 8:36 AM
To: Venchiarutti, Robert@DBO
Subject: NYT: "Bitcoin Pursues the Mainstream"

Circle and Coinbase...

October 30, 2013

By NICK WINGFIELD

The currency known as bitcoin — a much-hyped and much-doubted type of digital cash that can be bought with traditional money — has mostly attracted attention for its popularity in the black market, and for its wildly gyrating valuation.

But some entrepreneurs, investors and even merchants are eyeing a far more mainstream use for it. They are convinced that bitcoin, though not widely understood, offers a path to lower payment processing and more secure transactions. Instead of using bitcoin to buy illegal guns in the recesses of the web, they say, ordinary consumers will use it to buy legal goods from legal retailers — and as easily as they now swipe their credit cards or exchange paper bills.

"I'm confident you will see major worldwide retailers adopting systems built on bitcoin," said Jim Breyer, the Silicon Valley venture capitalist and early Facebook investor who also served on the board of Walmart Stores for more than a decade.

Mr. Breyer is an investor in Circle Internet Financial, one of the host of start-ups trying to find a way to make bitcoin a widely adopted currency for retail payments. The company was started by Jeremy Allaire, a serial entrepreneur, and it aims to be a payment processing system for online and physical merchants, similar to the service PayPal offers online. Along with his venture firm, Accel Partners, and another called General Catalyst Partners, Mr. Breyer has invested $9 million in the company.

One potential obstacle to mainstream acceptance of bitcoin is the sometimes wild fluctuations in its value, which makes it alluring to currency speculators but could scare off ordinary consumers. One bitcoin was worth just over $200 Wednesday afternoon. Someone who bought a bitcoin in early April paid as much as $266 for it.

Only a small and motley assortment of merchants now accept bitcoin as payment, and in many cases they do it largely as a marketing strategy. The list includes a winery in British Columbia, the popular online dating site OkCupid and a Seattle lunch truck that specializes in grilled cheese sandwiches. A start-up called Gyft lets people buy electronic gift cards for major retailers with bitcoin, and this week an A.T.M. in Vancouver, Canada, began issuing bitcoin to people in exchange for cash.

"We pride ourselves on being the nerdiest online dating site," said Sam Yagan, co-founder of OkCupid, which is owned by IAC/InterActiveCorp, a media and Internet company. "We were like, 'This is cool and we should do it.' "

Since bitcoin emerged in 2009, many of those who flocked to the currency celebrated it for being beyond the clutches of governments and other institutions. Until recently, the currency lubricated transactions on Silk Road, one of the Web's biggest bazaars for drugs, forged documents and other contraband. The site wasshut down in early October by federal authorities.

New bitcoin is created on computers connected through a peer-to-peer network. An algorithm controls the production of new bitcoin, which is meant to mitigate the risk of inflation.

Already, though, businesses transferring and exchanging bitcoin find themselves in regulators' cross hairs.

In March, the Financial Crimes Enforcement Network, part of the Treasury Department, issued guidelines telling businesses involved in the exchange of digital currencies that they needed to register as money services businesses and comply with a variety of rules to prevent money laundering. New York's Department of Financial services began an inquiry in August to determine guidelines for digital currency businesses, issuing nearly two dozen subpoenas to start-ups, investors and others involved in the emerging field.

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McGuffin, Matthew@DBO

From:	Haraf, William (Bill) <wharaf@promontory.com>
Sent:	Wednesday, November 20, 2013 10:17 AM
To:	Venchiarutti, Robert@DBO
Subject:	Aaron Greenspan

Did you see that our good friend Aaron was invited to testify before Homeland Security? You can find it at the link below.

He trashes all kinds of people.

Bill

From: Haraf, William (Bill)
Sent: Tuesday, November 19, 2013 5:51 PM
To: Charise Flynn
Subject: Re: heads up

Thanks Charise. I know this guy. I will call you tomorrow.

Best ,

Bill

Sent from my iPhone

On Nov 19, 2013, at 5:27 PM, "Charise Flynn" <charise@dwolla.com> wrote:

> Hi Bill,
> Not sure if you have seen this yet:
> http://www.aarongreenspan.com/writing/20131118.hsgacstatement.pdf
>
> Several mentions of not only Dwolla but also Promontory by Aaron Greenspan.....
>
> We have never engaged with him directly but he sure goes out of his way to attack us.
>
> --
> Charise Flynn

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McGuffin, Matthew@DBO

From:	Venchiarutti, Robert@DBO
Sent:	Wednesday, November 20, 2013 12:51 PM
To:	Haraf, William (Bill)
Subject:	RE: Aaron Greenspan

It's been an interesting week...

Robert Venchiarutti
Deputy Commissioner, Money Transmitter Division
Department of Business Oversight
Division of Financial Institutions
45 Fremont Street, 17th Floor
San Francisco, CA 94105
(415) 263-8511

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From: Haraf, William (Bill) <wharaf@promontory.com>
Sent: Wednesday, November 20, 2013 2:11 PM
To: Venchiarutti, Robert@DBO
Subject: Quick Question

Bob,

Can you tell me who Amazon Payments used as outside counsel for its CA application? A client needs help.

Bill

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McGuffin, Matthew@DBO

From: Venchiarutti, Robert@DBO
Sent: Wednesday, November 20, 2013 2:20 PM
To: Haraf, William (Bill)
Subject: Re: Mr. Greenspan HSGAC Statement

Thanks Bill.

Sent from my Verizon Wireless 4G LTE DROID

"Haraf, William (Bill)" <wharaf@promontory.com> wrote:

More on this from one of our associates. It's good news.

Bill

From: Bulaevsky, Daniel
Sent: Wednesday, November 20, 2013 10:56 AM
To: Haraf, William (Bill)
Subject: Mr. Greenspan HSGAC Statement

Bill,

As we discussed, Aaron J. Greenspan did not appear as a witness in the U.S. Senate Committee on Homeland Security and Governmental Affairs hearing entitled "Beyond Silk Road: Potential Risks, Threats, and Promises of Virtual Currencies" (http://www.hsgac.senate.gov/hearings/beyond-silk-road-potential-risks-threats-and-promises-of-virtual-currencies). Mr. Greenspan did publish a written statement, which appears in full on his personal website but not on the HSGAC website (http://www.aarongreenspan.com/writing/20131118.hsgacstatement.pdf). It should be noted that the statement is difficult to find via internet searches, including targeted searches. In my own searches, I found two internet pages with links to the statement, both on Reddit (http://www.reddit.com/r/Bitcoin/comments/1qzwzl/im_one_of_the_senators_attending_todays_us_senate/ and http://www.reddit.com/r/Bitcoin/comments/1qvvzx/my_written_statement_to_the_us_senate_committee/). It seems that neither link has received much attention.

Thank you,
Daniel

Daniel Bulaevsky
Promontory Financial Group , LLC
Spear Tower
1 Market Plaza, Suite 4100
San Francisco, CA 94105
Work: 415-291-2662 | Cell: 202-594-7967
dbulaevsky@promontory.com

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From: Haraf, William (Bill) <wharaf@promontory.com>
Sent: Thursday, November 21, 2013 9:27 AM
To: Venchiarutti, Robert@DBO
Subject: Got your message

Thanks much.

Bill

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From:	Blaney, Leslie <lblaney@promontory.com>
Sent:	Friday, May 16, 2014 9:12 AM
To:	Venchiarutti, Robert@DBO
Subject:	Lunch with Promontory

Hello,

Adam Shapiro and Bill Haraf were hoping you might be available for lunch in the near future. By any chance does next Thursday, May 22nd work for you? Alternatively, May 30th would also work. Let me know if your schedule has some openings. Thanks!

PROMONTORY

Leslie Blaney

Spear Tower, 1 Market Plaza, Suite 4100 ● San Francisco, CA 94105

☎ Tel: (415) 321-6412

Email: lblaney@promontory.com

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From: Venchiarutti, Robert@DBO
Sent: Friday, May 16, 2014 4:45 PM
To: 'Blaney, Leslie'
Subject: RE: Lunch with Promontory

I'm afraid that won't work.

Would Tuesday or Wednesday the following week work?

Robert Venchiarutti
Deputy Commissioner, Money Transmitter Division
Department of Business Oversight
Division of Financial Institutions
45 Fremont Street, 17th Floor
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McGuffin, Matthew@DBO

From:	Blaney, Leslie <lblaney@promontory.com>
Sent:	Monday, May 19, 2014 9:36 AM
To:	Venchiarutti, Robert@DBO
Subject:	RE: Lunch with Promontory

Hi,
Those don't work but June 11th, 16th, 17th, 19th and 20th look ok right now. Let me know if any of those might be good for you. Thanks.

PROMONTORY

Leslie Blaney
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Effective July 1, 2013, the Department of Corporations and the Department of Financial Institutions merged to form the Department of Business Oversight in accordance with the Governor's reorganization of state departments to provide services more efficiently and effectively.

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McGuffin, Matthew@DBO

From: Venchiarutti, Robert@DBO
Sent: Tuesday, May 20, 2014 1:00 PM
To: 'Blaney, Leslie'
Subject: RE: Lunch with Promontory

I can make it on the 17th, 19th and 20th.

Thanks.

Robert Venchiarutti
Deputy Commissioner, Money Transmitter Division
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Division of Financial Institutions
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Email: lblaney@promontory.com

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McGuffin, Matthew@DBO

From: Blaney, Leslie <lblaney@promontory.com>
Sent: Tuesday, May 20, 2014 1:08 PM
To: Venchiarutti, Robert@DBO
Subject: RE: Lunch with Promontory

Fantastic! I've just sent an invite. As soon as I have a location, I'll update the invite. Thanks for your patience in getting a date set!

PROMONTORY

Leslie Blaney
Spear Tower, 1 Market Plaza, Suite 4100 ● San Francisco, CA 94105
☎ Tel: (415) 321-6412
Email: lblaney@promontory.com

From: Venchiarutti, Robert@DBO [mailto:Robert.Venchiarutti@dbo.ca.gov]
Sent: Tuesday, May 20, 2014 1:00 PM
To: Blaney, Leslie
Subject: RE: Lunch with Promontory

I can make it on the 17th, 19th and 20th.

Thanks.

Robert Venchiarutti
Deputy Commissioner, Money Transmitter Division
Department of Business Oversight
Division of Financial Institutions
45 Fremont Street, 17th Floor
San Francisco, CA 94105
(415) 263-8511

From: Blaney, Leslie [mailto:lblaney@promontory.com]
Sent: Monday, May 19, 2014 9:36 AM
To: Venchiarutti, Robert@DBO
Subject: RE: Lunch with Promontory

Hi,
Those don't work but June 11th, 16th, 17th, 19th and 20th look ok right now. Let me know if any of those might be good for you. Thanks.

PROMONTORY

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From: Venchiarutti, Robert@DBO [mailto:Robert.Venchiarutti@dbo.ca.gov]
Sent: Friday, May 16, 2014 4:45 PM
To: Blaney, Leslie
Subject: RE: Lunch with Promontory

I'm afraid that won't work.

Would Tuesday or Wednesday the following week work?

Robert Venchiarutti
Deputy Commissioner, Money Transmitter Division
Department of Business Oversight
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45 Fremont Street, 17th Floor
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From: Blaney, Leslie [mailto:lblaney@promontory.com]
Sent: Friday, May 16, 2014 9:12 AM
To: Venchiarutti, Robert@DBO
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Hello,
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McGuffin, Matthew@DBO

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Subject: RE: Lunch with Promontory

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From: Venchiarutti, Robert@DBO
Sent: Friday, June 06, 2014 12:36 PM
To: 'Blaney, Leslie'
Subject: RE: Lunch with Promontory

Hi Leslie,

I am scheduled to have lunch with Bill and Adam on June 20. It looks like I need to be in Sacramento that day, however, so I am hoping we can reschedule this for the 18th or 19th of June, or sometime the next week, on the 23rd, 25th, 26th or 27th.

Thanks!

Robert Venchiarutti
Deputy Commissioner, Money Transmitter Division
Department of Business Oversight
Division of Financial Institutions
45 Fremont Street, 17th Floor
San Francisco, CA 94105
(415) 263-8511

From: Blaney, Leslie [mailto:lblaney@promontory.com]
Sent: Friday, May 16, 2014 9:12 AM
To: Venchiarutti, Robert@DBO
Subject: Lunch with Promontory

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From:	Haraf, William (Bill) <wharaf@promontory.com>
Sent:	Thursday, July 11, 2013 11:05 AM
To:	Alt, Konrad; aaxton@kbw.com; jbarefoot@treliant.com; dbartlett@erisgrp.com; cbrown@treliant.com; jbuckley@buckleysandler.com; fcannon@kbw.com; ecarpenter@carpentercompany.com; clark@sewkis.com; mdent@svb.com; vincent.faughnan@unionbank.com; HFields@MOFO.com; Haraf, William (Bill); HRHeller@Me.com; huberjr@wellsfargo.com; shamir@simple.com; kroenerw@sullcrom.com; chris@ripple.com; paul.leonard@responsiblelending.org; elevine@mofo.com; rlitan2@bloomberg.net; mlowy@tampabay.rr.com; jkmny51 @yahoo.com; peter.morgan@schwab.com; CMuckenfuss@gibsondunn.com; mark_palim@fanniemae.com; Patriarca, Michael; jryan@csbs.org; priyasanger@yahoo.com; ellensseidman@gmail.com; Shapiro, Adam; simcocknyc@mac.com; Thelander, David; Venchiarutti, Robert@DBO; Lwhite@stern.nyu.edu; jwilcox@haas.berkeley.edu; mark.willis@nyu.edu; lesliewoolley@gmail.com; johnw@wellsfargo.com; todd.baker@unionbank.com
Cc:	Duncan, Shana; joharaf@comcast.net
Subject:	Final Agenda and Participant List (revised)
Attachments:	Summer Smoketree 2013 Attendees.doc; AGENDA FOR SUMMER 2013 SMOKETREE MEETING.docx

With apologies for an omission and a couple of small corrections...

Bill

William S. Haraf
Managing Director
Promontory Financial Group
Spear Tower, 1 Market Plaza, Suite 4100
San Francisco, CA 94105
415.321.6411 (o)
415.680.7371(m)
wharaf@promontory.com
www.Promontory.com

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Summer Smoketree Session, 2013 Participants
Cavallo Point - The Lodge at Golden Gate, July 12-14, 2013
(as of June 4, 2013)

Konrad S. Alt, Managing Director Promontory Financial Group Spear Tower - 1 Market Plaza Suite 4100 San Francisco, CA 94105 (415) 986-4160 kalt@promontory.com	(Maureen Kennedy)
Aaron Axton, Managing Director Keefe, Bruyette & Woods 101 California Street, Suite 3700 San Francisco CA 94111 (415) 591-5040 aaxton@kbw.com	(Tama Jo Clare Axton)
Todd Baker, EVP Union Bank 400 California Street, 9th Floor MC-1-001-09 San Francisco, CA 94104 (415) 765-3809 todd.baker@unionbank.com	
Jo Ann S. Barefoot, Co-Chair Treliant Risk Advisors 2300 N Street, N.W., Suite 2100 Washington, DC 20037 (202) 249-7920 jbarefoot@treliant.com	
Doyle Bartlett, Partner Eris Group, LLC 439 New Jersey Avenue SE Washington DC 20003 (202) 546-1765 dbartlett@erisgrp.com	(Leslie Wooley will also be a meeting participant)

Catherine M. Brown, Managing Director Treliant Risk Advisors 2300 N Street, N.W., Suite 2100 Washington, DC 20037 (202) 249-7940 cbrown@treliant.com	
Jerry Buckley, Esq. Buckley Sandler LLP 1250 24th Street, N.W., Suite 700 Washington, DC 20037 (202) 349-9010 jbuckley@buckleysandler.com	(Debbie)
Fred Cannon, EVP, Director of Research Keefe, Bruyette & Woods 787 Seventh Avenue New York NY 10019 (212) 887-3887 fcannon@kbw.com	
Ed Carpenter, CEO Carpenter & Company 5 Park Plaza, Suite 950 Irvine CA 92614-8527 (949) 261-8888 ecarpenter@carpentercompany.com	
Paul Clark, Partner Seward & Kissel LLP 901 K Street, NW Washington DC 20001 (202) 737-8833 clark@sewkis.com	
Mary Dent, Vice President Silicon Valley Bank (408) 654-3433 mdent@svb.com	Saturday Only

Vincent Faughnan, EVP UnionBanCal Corporation 400 California Street San Francisco CA 94104 (415) 765-2908 vincent.faughnan@unionbank.com	
Henry Fields, Partner Morrison & Foerster LLP 555 West Fifth Street Suite 3500 Los Angeles CA 90013-1024 (213) 892-5275 HFields@MOFO.com	(Bobbi)
Bill Haraf, Managing Director Promontory Financial Group Spear Tower - 1 Market Plaza Suite 4100 San Francisco CA 94105 (415) 321-6411 wharaf@promontory.com	(Jo)
Robert Heller, Director Bank of Marin Bancorp 6 Maybridge Road Belvedere CA 94920 (415) 435-5437 HRHeller@Me.com	Sunday only
John Huber, SVP Wells Fargo Bank N.A. 400 Hamilton Avenue Suite 110 Palo Alto CA 94301 (650) 855-0119 huberjr@wellsfargo.com	

Shamir Karkal, CFO Simple 720 NW Davis Street Suite 400 Portland OR 97209 (503) 308-3240 Shamir@simple.com	(America Grau)
William Kroener, Counsel Sullivan & Cromwell 1701 Pennsylvania Avenue, N.W. Washington DC 20006-5805 (202) 956-7095 kroenerw@sullcrom.com	
Chris Larsen, CEO and Co-Founder OpenCoin Inc. chris@ripple.com	(Patrick Griffin)
Paul Leonard, California Director Center for Responsible Lending 1330 Broadway, Suite 604 Oakland CA 94612 (510) 379-5510 paul.leonard@responsiblelending.org	
Ezra Levine, Senior Counsel Morrison & Foerster LLP 2000 Pennsylvania Avenue, NW Suite 6000 Washington DC 20006-1888 (202) 887-1597 elevine@mofo.com	
Robert Litan, Director of Research Bloomberg Government Washington, DC (301) 943-2427 rlitan2@bloomberg.net	

Marty Lowy (410) 820-6564 mlowy@tampabay.rr.com	(Louise)
Keith Morgan (646) 784-3630 jkmny51@yahoo.com	
Peter Morgan, SVP, Deputy General Counsel Charles Schwab Corporation 211 Main Street San Francisco CA 94105 (415) 667-0958 peter.morgan@schwab.com	(Iona)
Chuck Muckenfuss, Partner Gibson, Dunn & Crutcher LLP 1050 Connecticut Avenue, N.W. Washington DC 20036-5306 (202) 955-8514 CMuckenfuss@gibsondunn.com	
Mark Palim, Vice President Fannie Mae 3900 Wisconsin Avenue, NW Washington, DC 20016 (202) 752-7987 mark_palim@fanniemae.com	
Michael Patriarca , Managing Director Promontory Financial Group Spear Tower - 1 Market Plaza Suite 4100 San Francisco CA 94105 (415) 986-4642 mpatriarca@promontory.com	
John Ryan, President Conference of State Bank Supervisors 1129 20th Street, NW, 9th Floor Washington DC 20036 (202) 728-5724 JRyan@CSBS.org	

Priya Sanger, Corporate Counsel Google, Inc. (415) 745-1776 priyasanger@yahoo.com	(Michael)
Ellen Seidman, Senior Fellow Urban Institute 2558 36th Street, NW Washington, DC 20007 (301) 518-0272 ellensseidman@gmail.com	
Adam Shapiro, Director Promontory Financial Group Spear Tower - 1 Market Plaza Suite 4100 San Francisco CA 94105 (415) 321-6404 ashapiro@promontory.com	Friday evening-Saturday morning (Wendy)
Stephen Simcock, General Counsel, Global Consumer Group Citigroup, Inc. 399 Park Avenue, 3rd Floor New York, NY 10022 (212) 559-7017 simcocks@citi.com	
David Thelander Adam Shapiro, Director Promontory Financial Group Spear Tower - 1 Market Plaza Suite 4100 San Francisco CA 94105 (415) 291-2675 dthelander@promontory.com	Friday evening (Diana Crowe)
Robert (Bob) Venchiarutti, Deputy Commissioner California Department of Financial Institutions 45 Fremont Street, Suite 1700 (415) 263-8511 rvenchiarutti@dfi.ca.gov	Friday evening-Saturday afternoon

Lawrence (Larry) White, Robert Kavesh Professor of Economics New York University Henry Kaufman Management Center 44 West Fourth Street New York NY 10012 (212) 998-0880 Lwhite@stern.nyu.edu	
James (Jim) Wilcox, J. J. and M. B. Lowrey Professor of Financial Institutions University of California, Berkeley, Haas School of Business 545 Student Services, #1900 Berkeley CA 94720-1900 (925) 324-3876 jwilcox@haas.berkeley.edu	(Azin)
Mark Willis, Resident Research Fellow NYU Furman Center for Real Estate and Urban Policy 139 MacDougal Street 2nd floor New York NY 10012 (212) 998-6670 mark.willis@nyu.edu	
Leslie Woolley (703) 402-7835 lesliewoolley@gmail.com	(Doyle Bartlett will also be a meeting participant)
John Wright, Chief Regulatory Counsel Wells Fargo Bank N.A. 45 Fremont St, 27th Floor San Francisco CA 94105 (415) 396-4226 johnw@wellsfargo.com	

AGENDA

THE SMOKE TREE GROUP "MID-SESSION" MEETING
Cavallo Point
July 12 – July 14, 2013

Friday, July 12, 2013

12:00 pm

Informal optional gathering for lunch at the Lodge and environs

1:00 pm

Welcome and Overview

Bill Haraf

1:30 pm – 5:00pm

Perspectives on the Evolving Nature of Banking, Finance, and Financial Regulation

Discussion Leaders:

Todd Baker
Fred Cannon
Jim Wilcox
John Ryan
Larry White
Marty Lowy

6:00 pm -- ???

Reception at Bill and Jo Haraf's, [redacted]

Directions to Jo and Bill's below
Catering by: Robin Scott Catering, http://www.robinscottcatering.com/

Saturday, July 13, 2013

8:00 am

Continental Breakfast

8:30 am – 10:00 am

Consumer Finance and Its Oversight: Does the CFPB Have It Right?

Discussion Leaders:

Jo Ann Barefoot
Konrad Alt
Paul Leonard

Break

10:15 am – 12:00 pm

Emerging Payments: Storing Value/Moving Money

Discussion Leaders:

John Huber
Chris Larsen
Priya Sanger
Adam Shapiro

12:00 pm – 3:00 pm

Optional no-host lunches at various Sausalito restaurants, informal discussion, walks in Golden Gate National Park and/or Sausalito

3:00 pm – 5:00 pm

Compliance Risk Management: A View from the Trenches

Discussion Leader:

Vince Faughnan
John Wright
Mary Dent
Peter Morgan
Stephen Simcock

Saturday 6:00 pm -- ???

Reception and dinner at [redacted]

Sunday, July 14, 2013

8:00 am

Continental Breakfast

8:30 am – 10:00 am

The Future of Mortgage Finance

Discussion Leaders

Bob Litan
Mark Willis
Mark Palim

Break

10:15 am – 12:00 pm

The Political Economy of Financial Regulation

Discussion Leaders:

Doyle Bartlett
Chuck Muckenfuss
Bill Kroener

12:00 pm

Conference adjourns. Optional no-host lunches at various Sausalito restaurants
Excursions to follow

THANK YOU FOR COMING TO SAUSALITO CALIFORNIA FOR THE SECOND ANNUAL MID-SESSION MEETING OF THE SMOKETREE RANCHERS!